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DEPARTMENT OF DEFENSE APPROPRIATIONS FOR 1987

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON THE DEPARTMENT OF DEFENSE

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DEFENSE APPROPRIATIONS FOR FISCAL YEAR 1987

WEDNESDAY, FEBRUARY 19, 1986.

BRIEFING ON GRAMM-RUDMAN-HOLLINGS ACT

WITNESSES

Congressional Budget Office

JAMES BLUM, ASSISTANT DIRECTOR FOR BUDGET ANALYSIS

MICHAEL MILLER, CHIEF OF THE DEFENSE AND INTERNATIONAL AFFAIRS COST ESTIMATES UNIT

General Accounting Office

HARRY HAVENS, ASSISTANT COMPTROLLER GENERAL

FRANK CONAHAN, DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION

DONNA HEIVILIN, ASSOCIATE DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION

JAMES HINCHMAN, DEPUTY GENERAL COUNSEL

INTRODUCTION

Mr. CHAPPELL [presiding]. The Committee will come to order.

The review of the defense budget by this Committee will be affected greatly by the automatic deficit reduction process established by the Gramm-Rudman-Hollings Act. To help us in our work, the Subcommittee today will have the benefit of briefings on the operations and impact of this Act, especially as it affects defense.

This morning we will hear from the Congressional Budget Office (CBO) and the General Accounting Office (GAO). Mr. Jim Blum, Assistant Director for Budget Analysis is the principal witness for the CBO. And he is supported by Mr. Michael Miller, Chief of Defense and International Affairs Cost Estimates Unit.

The principal witness for the GAO is Mr. Harry Havens, Assistant Comptroller General. He is supported by Mr. Frank Conahan, Director of the National Security and International Affairs Division and by Mrs. Donna Heivilin and Mr. James Hinchman.

It is my intention to cover at least the following general topics during this briefing. General descriptions of sequestration process by CBO; general description of the method for calculating the defense reduction by GAO; assessment of the Fiscal Year 1986 experience, including the adequacy of time and information and of working relationships with other major participants; discussion of the recent court decision; review of the outcome of the Fiscal Year 1986 sequestration; a look at Fiscal Year 1987 sequestration if it is necessary; and an assessment of the need for flexibility and the forms it might take.

Mr. Blum, I wonder if you might start with a description of the various phases of the process all the way from the first snapshot to the compliance to the court?

SUMMARY STATEMENT OF MR. BLUM

Mr. Blum. Thank you, Mr. Chairman.

We have distributed to members of the Committee copies of the summary of the CBO/OMB sequestration report to GAO for Fiscal Year 1986, which is this very thin volume, as well as copies of the CBO Annual Report to the Budget Committees, our first volume on the economic and budget outlook which was released yesterday. Both of these documents provide background information on the work that we did for the 1986 sequestration as well as an advanced warning or early warning, if you will, of what a 1987 sequestration might look like.

[Clerk's note.—The reports referred to by Mr. Blum are printed at the end of this hearing. See page 143.]

TIMETABLE

Mr. Blum. Let me now focus my remarks on the timetable for Fiscal Year 1987, in terms of how the sequestration process would work under the Balanced Budget Act.

The first significant date that appears on the timetable is August 15th, which is the date as of which we would, with OMB, take our first snapshot of the deficit for Fiscal Year 1987. Now, the Balanced Budget Act, or the Gramm-Rudman-Hollings Act, as it is more popularly known, states very precisely the base for estimating the deficit.

We are to assume current law for revenues and spending. More specifically, if there are no Fiscal Year 1987 appropriation acts enacted by the 15th of August, we are to use the 1986 appropriations levels as part of our calculations for determining where the budget stands.

Furthermore, we are to assume no extension for any expiring provisions—for example, such as general revenue sharing, which unless it is extended, would expire at the end of Fiscal Year 1986. There are some exceptions, however. We are to assume extension in the case of any expiring provisions for excise taxes that are dedicated to a trust fund, such as the Highway Trust Fund or Airport Trust Fund or the farm price support programs for the Commodity Credit Corporation.

To repeat, the 15th of August is a snapshot date. As of that date we take a picture and do these calculations as to what the budget situation looks like for Fiscal Year 1987. Five days later, on the 20th of August, OMB and CBO are to issue our initial report to the General Accounting Office. And the content of this report would be very similar to the one we made for 1986. It would contain essentially three major elements. It would provide the base level estimates—what does the budget picture look like? And in particular, the key variable would be the deficit and how that deficit estimate compares to the targets that are specified by the Gramm-Rudman-Hollings Act.

If the deficit as projected by OMB and CBO exceeds the target for 1987, which is $144 billion—if it exceeds that amount by more than $10 billion—then the sequestration procedure would be invoked in order to remove the excess deficit, to bring it down to $144 billion.

The report would also contain the economic assumptions that underlie these budget estimates. And in particular, we are to show the real growth assumptions for the Fiscal Year as well as for each of the four quarters of that Fiscal Year, and also the two quarters for the end of Fiscal Year 1986. The reason for that is the Gramm-Rudman-Hollings Act has a proviso that if either CBO or OMB foresees a recession on the horizon during the Fiscal Year 1987, or if the Department of Commerce has reported real growth below one percent for two consecutive quarters, then the Congress has the option to suspend the procedures of the Act.

That is in essence the report that we would make. Oh, I am sorry, the third major element, of course, is that we would do the sequestration calculations. Just what does it all mean, what is involved to bring the deficit down to $144 billion? And what types of cuts would have to be made? All of these calculations are specified in the Act, in terms of how we are to make them, and we will be getting into those more later this morning.

On August 25th, five days after OMB and CBO report to GAO, the Comptroller General is to issue his report to the President. The purpose of this report is to review and to confirm or modify the calculations provided in the CBO/OMB report. It is the Comptroller General's report that would serve as the basis for the actual sequestration order that would be issued by the President on an initial basis on September 1. This Presidential Order would then go into effect on October 1.

During the month of September, the Congress would have an opportunity to take whatever actions it deemed appropriate to reduce the deficit by means other than sequestration, and if it were to do so, then that could have the effect of vitiating the need to have the sequestration procedure invoked.

On October 1, as I said, the initial Presidential Order would take effect, but that is also a day, in effect, for a second snapshot to be taken by CBO and OMB of where the deficit stands, taking into account any Congressional action that has taken place during the month of September.

And then on the 5th of October, we would issue a second and final report to GAO and five days after that, on the 10th of October, the Comptroller General would issue a second report, a final report to the President. If sequestration was necessary, a final Presidential Order would be issued on the 15th of October and the sequestration process would proceed.

One month after that date, on the 15th of November, the General Accounting Office is to issue a Compliance Report. The purpose of this is to determine whether or not the Presidential Order on the sequestration is in compliance with the GAO reports.

I might point out, the reason for that is that the President is given absolutely no discretion in terms of the major components of the sequestration process as it is set forth by the General Accounting Office.

For Fiscal Year 1986, we followed a somewhat different timetable because of the late enactment date for the Gramm-Rudman-Hollings Act. Where we stand now is that the sequestration for 1986 will go into effect on the 1st of March. Not only was there a different timetable, the Act also placed a limit on the amount of the sequestration. The target specified under the Act for the deficit is $171.9 billion and the OMB/CBO deficit estimate for Fiscal Year 1986, in our report of January 15, put the deficit at $220.5 billion, almost $50 billion over the target for the year. But the Act limited the sequestration to $20 billion maximum at an annual rate, or, since it would not take effect until the 1st of March, 7/12 of that amount or $11.7 billion. So for 1986, the sequestration was limited to a maximum of $11.7 billion in terms of outlay reductions.

Let me stop at that point.

CALCULATION OF DEFENSE SEQUESTRATION

Mr. CHAPPELL. Mr. Havens, suppose you describe for us the method of calculating the defense sequestration, if you will?

Deficit reduction amounts are specified in outlays, but this subcommittee deals directly with budget authority not outlays. So will you distinguish carefully in your discussion how the bridge is built between budget authority and outlays in determining defense sequestration?

Mr. HAVENS. Yes, Mr. Chairman.

We start in the calculation with the $11.7 billion outlay reduction target, which Mr. Blum has already described.

And we are focusing, at this point, on the outlay target. We later come to the issue of budget authority which is how the outlay target is to be achieved. The $11.7 is, by law, to be divided in half—half allocated to defense and half allocated to non-defense. This yields $5.85 billion of outlay reduction target for the defense component. From the $5.85 billion, there is an offset of half the savings from the retirement components of the automatic spending increase. That is about $500 million. So the remaining target for defense is $5.35 billion of outlays.

Now, that is used to compute the percentage reduction in roughly the following fashion: Total outlays for defense as estimated by OMB and CBO were about $273 billion. Slightly more than $100 billion of that is exempt because it results from prior year obligations. In addition, the President exempted about $61.3 billion in the military personnel accounts. So, the base against which the target is to be achieved comes down to about $109 billion in 1986 outlays.

The $5.35 divided by the $109 base yields the 4.9 percent. And that is what is to be applied to the budget authority numbers in order to achieve the sequestration amounts that are required. That computation, 4.9 percent, multiplied by the $270 billion or so budget authority plus unobligated balances in the defense component, yields a required sequestration of about $13.8 billion. That is using the OMB/CBO report numbers.

GAO, in its review, concluded that there was about $6.3 billion of unobligated balances which had been identified as being available for transfer, which should have been included in the base, but were not included in the base in the OMB/CBO report. The 4.9 percent multiplied by that $6.3 billion, which was available for transfer, adds another $300 million or so to the required sequestration, producing a total required sequestration of the defense function of $14.1 billion.

That is in budget authority and unobligated balances.

Those are the calculations.

Mr. **Chappell**. What is that figure again?

Mr. **Havens**. $14.1 billion. You start with the outlay target, which you are trying to achieve. You then convert that to a budget authority number by using the spend-out rates, the total available budget authority being roughly $275 billion, and the 4.9 percent is applied to that.

Mr. **Chappell**. So, is it fair to say that you divide by a factor of 2.5 to 1, you convert outlays to budget authority?

Mr. **Havens**. The relationship is about 2.5 to 1. That is correct, yes.

Mr. **Murtha**. Mr. Chairman, may I ask a question?

Mr. **Chappell**. Yes, sir.

REDUCTION OF 4.9 PERCENT OF FY 86 BUDGET AUTHORITY

Mr. **Murtha**. I just found, when I was going around and visiting several bases on the way to the Philippines and the way back, the first thing the Air Force cut out was flying hours and of course, they did not know why they cut them out, but I figured the reason that they did was because flying hours outlay 100 percent and they just apportioned the cut to get their 4.9 percent out.

Now, I think that it was a 4 percent cut that they took. What is the relationship between where you see the cuts that are going to be made and the probable spend out rate, or is that something that you do not get involved in at all?

For instance, I see the readiness items, which are 100 percent outlays as being the areas where the cuts are going to be made.

Mr. **Havens**. Well, the way the law is structured, sir, the cuts must be made uniformly among projects, programs, and activities within budget accounts. Except in those cases where the President chose to exercise his discretion.

Mr. **Murtha**. Well, that is a good point. Now, for instance, you are saying that they would have to cut procurement by the same amount that they cut O & M?

Mr. **Havens**. That is correct.

Mr. **Murtha**. But the problem is that O & M has a 100 percent outlay but procurement might be 1 to 10.

Mr. **Havens**. That is correct, sir.

The law requires sequestration of available authority, within accounts, on an equal percentage basis except for the limited discretion the President has which he exercised in the case of military personnel accounts. And within accounts, uniformly among programs, projects and activities, provided however in 1986, there was some discretion to reallocate among programs, projects and activities.

Mr. MURTHA. Well, you just said outlays. I do not understand the relationship—for instance, when the Air Force takes its cut, is it taking a cut in outlays? Is that what it is working with or is it only interested in budget authority?

Mr. HAVENS. The Act computes a percentage reduction amount on the basis of the outlay target but that percentage reduction is then applied to budget authority and unobligated balances.

Mr. MURTHA. So, in your estimation, would they have to cut procurement budget authority much more than they would O & M?

Mr. HAVENS. No, sir. The 4.9 percent applies to all accounts.

Mr. MURTHA. No. The point I am trying to make is that O & M is 100 percent outlays.

Mr. HAVENS. Yes, sir.

Mr. MURTHA. Procurement is obviously some times, well, it is always much smaller than that in outlays. Now, do they take a 4.9 percent in procurement, in budget authority? Or how do they apportion the cuts throughout the defense?

Mr. HAVENS. The 4.9 percent is taken in budget authority in all accounts. The actual spend-out rate of an individual account is not material to the calculation or to the allocation of the cuts.

Mr. MURTHA. All right, well, then, how do they get to the outlay figure because 4.9 percent cut in budget authority is not going to get you down in outlays to 4.9 percent?

Mr. HAVENS. That is correct, sir. And that is why the 4.9 percent is applied to total budget authority in the base and yields, for example, that roughly 2.5 to 1 ratio between budget authority and the outlay target.

Mr. MURTHA. So, it is 2.5 to 1 overall, so but of course the readiness items are the things that really hurt us.

FY 1986 SEQUESTRATION REVIEW

Mr. CHAPPELL. Gentlemen, would you each in turn tell the Committee about your experience with the 1986 sequestration?

Now, did you have sufficient time and information available to perform your required functions?

For defense, in particular, I wondered if you had sufficient and detailed information at the program, project and activity level and the necessary time to handle the thousands of calculations required?

Mr. HAVENS. Let me ask Mr. Blum to respond first, since he had the first stage of process.

Mr. BLUM. Well, Mr. Chairman, we really had only a month in which to prepare the report for Fiscal Year 1986 from the time the Act was enacted to the time of the first report, which had to come out on the 15th of January.

Now, in that sense, we had limited time. It also came, I would note, at a very bad time, particularly for OMB and the Defense Department, because they were in the midst of putting together all of the finishing details on the President's budget request for Fiscal Year 1987.

So, for those organizations, I think it was probably more difficult. It was difficult, as well, for the Congressional Budget Office, because that is normally the time when we are preparing our annual report to the Budget Committees, which had to be delayed while we did this.

But, with respect to having sufficient information and time for defense programs in particular, it turned out that by making various simplifying assumptions we were able to get the work done in the time available. These simplifying assumptions had to do with the calculations for the individual accounts and, more particularly, for the individual programs, projects and activities within each account.

The Act specifies that as we build up our sequestration base, where we have to estimate the outlays that could be affected by sequestering budget authority and unobligated balances, we are to use individual spending rates, not only at the account level but potentially for each individual program, project and activity, both for new budget authority on the one hand, and for unobligated balances on the other.

Well, it turns out that that kind of information simply is not available to either the CBO, OMB, or the Defense Department. What we do have are spending rate assumptions at the account level as to how new budget authority will spend out over time. And the simplifying assumption that we made was simply that those spending rates, which are well documented at each account level for new budget authority, would also be used for unobligated balances, and within each account for each program, project and activity.

That simplified the task enormously with respect to the Defense Department, after we had settled a few conceptual issues as to what were sequesterable resources. Then the process became a fairly mechanical one of OMB and CBO independently putting together their budget estimates. Where we could not reach agreement, we simply averaged the results as the Act directs us to do.

At that point, it became fairly mechanical and the averaging could be done by a computer.

Mr. HAVENS. In the case of the General Accounting Office, the statute provided that we would receive the OMB/CBO report on the 15th of January and issue our own report on the 20th. The 20th happened to be the Martin Luther King Holiday, which, by law, meant that we issued our report on the 21st instead of the 20th, giving us an additional 20 percent of time, to wit, one day.

We were additionally aided this year, and I presume would be aided in the future, by the early receipt of information from OMB and CBO in the form of preliminary data as to where they were coming out in their report. And we began to receive this information on the 10th of January, as I recall it. That allowed us to begin our review before the formal receipt of the OMB/CBO report.

Was there sufficient time and information available? I think the answer has to be yes, in the sense that we were able to complete our work. Was there more information that we would have liked to have had? The answer has to be yes, but at the same time, I am not sure that we would have had much time to do much with it, had we had more information.

In the case of defense, in trying to deal with programs, projects and activities, we found that the mass of detail that we received in some ways could be a problem. Because it was hard to handle. It was hard for us to review in detail. We were benefited in that sense by having it in computer readable form, on disks, that we received from defense. We did complete our review of it in the sense of determining that the numbers added up. I would have to say that in defense, in our report, and in our subsequent work on the programs, projects and activities on the non-defense side of government, which is work that we are undertaking in connection with our compliance report, there are significant problems with the programs, projects and activities lists.

It is not always obvious what is a program, a project or an activity.

DEFINITION OF PROGRAMS, PROJECTS AND ACTIVITIES

Mr. **Chappell.** On that point, I wanted to suggest that you tell us your concept of the difference, because I certainly do not understand the difference between a program, a project and an activity. Would you explain that point for us?

Mr. **Havens.** There are a number of things about this Act which I would have some difficulty explaining with great clarity, I am afraid, Mr. Chairman. This probably being one of them.

The term, project, program and activity, is in my interpretation a phrase of art, which the drafters of the legislation used to describe a level of detail in the data below the account levels.

Those words are not defined, to the best of my recollection, in the Act, itself. Rather, the Act contains instructions on how to apply the term. Those instructions are, themselves, somewhat ambiguous. They refer to a variety of sources from which one may derive a listing of programs, projects and activities. Those sources are, themselves, not necessarily consistent, which means that it can frequently be very difficult to determine what is the correct program, project and activity list. Or, for that matter, to attribute the budget authority, and as Mr. Blum has explained, the outlays to the program, project and activity level.

This, I think, is going to be a continuing problem in implementing Gramm-Rudman-Hollings in the sense that the law does require decisions to be made and actions to be taken at the program, project and activity level and those listings are going to remain ambiguous, I am afraid.

The simple answer is that I cannot distinguish a program, project or an activity with great clarity. I can describe how the Defense Department, in this case, went about the process of defining what they thought were programs, projects and activities. We, essentially, as did OMB, and CBO, accepted the list that the Defense Department developed. We saw no real basis, at the time of our review, for challenging that list.

WORKING RELATIONSHIP

Mr. **Chappell.** Would you describe your working relationship with each office? That is the Office of Management and Budget, the Department of Defense with your offices?

Mr. **Blum**. Mr. Chairman, I think the best way to characterize them was they really were very excellent. I think in the conditions under which we were working, the time pressures were severe and other work load pressures were also quite great for the organizations, but I think that we had a very excellent working relationship.

Just to make it clear how CBO and OMB proceeded, we prepared our estimates for the base level budget estimates as well as what were sequesterable resources independently. CBO prepared a set. OMB—and then in the case of Defense, the Office of the Assistant Secretary for the Comptroller of Defense—put together their set of data.

These were then matched on a computer system and we looked at the differences that came out. In the case of budgetary resources for defense, I am not aware that we had any significant differences at all. There were differences with respect to the outlays that would result in fiscal year 1986 from those resources. But these were technical estimating differences, if you will, not conceptual differences. And therefore averaging those differences or splitting them, which the Act requires, is also, it seems to me, an acceptable procedure because the average of the two estimates is likely to be as good as either of the independent estimates.

We had a very close working relationship with all the parties. And as Mr. Havens has indicated, we did, with the General Accounting Office, strive to give them the results of our calculations on an early basis. And, furthermore, after we had completed our report and the General Accounting Office was reviewing it, we spotted some errors and omissions in our own calculations, which we brought to the attention of the GAO and they were able to make the corrections in their report.

Mr. **Chappell**. Where you had a question about the specifics or the intent of the Act, you called Mr. Gramm and Mr. Rudman down to explain or to clarify, did you not?

Mr. **Blum**. Well, no, sir, we did not.

Essentially a large part of our effort with OMB was, after we matched our two sets of data, to remove any conceptual differences, in terms of differing interpretations that we might have in applying the provisions of the Act. We would get together and discuss those to see if we could reach agreement in terms of how to interpret the Act.

We were very successful in doing so in all but one instance, which we reported to the Comptroller General, and the General Accounting Office made a decision in that regard. But otherwise we took the Act and did the best we could in interpreting what all the many provisions in it meant, and I think we succeeded.

Mr. **Chappell**. I think that we commend all of you for doing a whale of a good job in a very short time and under very difficult circumstances. And I wanted to point up the fact that you have had a terrific job to do in a short period of time.

In summary, on that question everybody did work together very well—they shared information; they helped; they did those things that facilitated the meeting of the deadlines. Is that correct?

Mr. **Havens**. The General Accounting Office would agree with that.

We did work, I think, quite well together. And there are obviously some rough spots, there always will be when something of this sort is tried for the first time, but in the final analysis, we got the job done.

Mr. **Chappell**. On that point, would you anticipate that in the future of the Act, with regard to your responsibilities, it would be unworkable if you were required to do a sequestration again with both initial and final reports?

Mr. **Havens**. I am not aware of any that I would classify as unworkable.

Mr. **Chappell**. So you do not make a recommendation with reference to a change in procedures at this point.

Mr. **Murtha**. Mr. Chairman.

M **Chappell**. Mr. Murtha.

UNIFORM CUTS

Mr. **Murtha**. Mr. Chairman, thank you.

I am concerned though about how these decisions came about because I already see you folks, who really are not familiar with the programs, being forced to make decisions which have a long-term impact on the readiness of the armed forces. And I see the cuts being made disproportionately in readiness items rather than in procurement.

How do you rectify that type of a situation, where you do not get a chance to go out in the field like we do, even though you might have close liaison, you do not have the same oversight responsibilities that we have. How do you rectify the cuts, rather than just taking them across the board?

Mr. **Havens**. Well, let me respond for the General Accounting Office, if I may sir?

First, we do, in fact, spend a lot of time out in the field. We have a substantial staff of auditors who spend their time on defense. But, in fact, our knowledge of those programs, which I would argue is substantial, is not that material to the operations of the Gramm-Rudman-Hollings Act, because we, sir, do not have the discretion to say that O&M ought to be exempted or O&M ought to take a smaller cut. The law is written very clearly that the cuts are to be uniform in terms of budget authority, the same percentage reduction across accounts.

Now, I, personally, may or may not, as an individual, feel that that is a wise distribution of the cuts. That is not material to this issue, because the law is very clear that those cuts are to be uniform across accounts.

Mr. **Murtha**. Now, what do you mean by accounts?

How are you defining accounts?

Mr. **Havens**. Well, ship construction Navy is an account. O&M Navy is an account, and so on. Budget accounts as defined in the budget.

Mr. **Murtha**. They take the same percentage of budget authority cuts and you have no leeway? For instance, you cannot cut one by a higher percentage than another?

Mr. **Havens**. No, sir.

Mr. **Dicks**. Would you yield on that one point?

As I understand it, we go below the account level and get down to projects and programs——

Mr. **Havens**. You get down to programs, projects and activities.

Mr. **Dicks**. Programs, projects and activities, and the way that we put it in the continuing resolution is that you have got to go down to each of the line items. It is either an R&D line item or a procurement line item, is that not correct?

Mr. **Havens**. That is right.

Mr. **Dicks**. So we go right down to the basic program, the F-16 and so on.

Mr. **Murtha**. So, really what you are talking about is it is not a matter of knowing what the programs are all about, you had no leeway. You just made an accounting distribution which was forced on you by the legislation and that is what it amounts to. And the impact which is long-term and really should be a decision made more carefully, is going to have to be made just purely on the basis of figures if Gramm-Rudman-Hollings stays in effect.

EXEMPTIONS

Mr. **Dicks**. Would you yield for just a moment?

Is it not true that under the 1986 sequestration you had some flexibility because the law said, all personnel and existing contracts could be exempted if the President so desired?

Mr. **Havens**. Well, the law authorized the President to exempt military personnel. The law authorized the President to redistribute to a limited degree the cuts within, among programs, projects and activities within individual accounts.

But that, I emphasize, was discretion that was vested in the President and not in the Comptroller General or in OMB/CBO.

Mr. **Dicks**. In 1987 we go to this more rigid approach, is that not correct?

Mr. **Havens**. That is correct, sir.

Mr. **Murtha**. But still, if the Secretary of Defense wanted to eliminate DIVAD or a program that he felt was not worthwhile, he could eliminate that and get credit for it?

Mr. **Havens**. No. He can terminate part of the existing contracts provided the outlay reductions in that Fiscal Year resulting from the termination of the contracts are greater. Provided there are outlay savings, he can take credit for the outlay savings.

Mr. **Murtha**. Well, let us take a program. Could he cut the C-17 out? He just makes a decision, we can do without that and we are going to put the money in readiness, can he not still do that?

Mr. **Havens**. No, sir.

Mr. **Murtha**. Well, this really locks every program that is in place now, in place. Well that is ridiculous.

Mr. **Dicks**. Let me ask you to yield again.

Mr. **Murtha**. Yes.

CALCULATING FY 87 SEQUESTRATION

Mr. **Dicks**. Let me make sure that I understand. I am looking at the numbers here on page 85 of the CBO report. Now, as I understand it, if we do not come up with an alternative, the cut of $49 billion will be from the $285 billion number that was the BA number for Fiscal Year 1986. Is that correct?

Mr. HAVENS. Let me ask Mr. Blum, from CBO to respond to that. Those are his numbers, not mine.

Mr. DICKS. We take the 1986 base line which is the——

Mr. BLUM. We take the 1986 appropriation level less the sequestration for 1986 as the starting point for 1987, if there are no 1987 appropriations enacted by the time the sequestration goes into effect.

Mr. DICKS. So, we have the number of $297.5 whatever it was that we passed, less the $11 billion that gets us down to $286 or thereabouts for the defense function—that is MILCON, defense appropriations, and Department of Energy nuclear weapons programs. Then if we do not pass something and we have to make a $50 billion cut in budget authority in order to get the $18 billion in outlay reductions, that $50 billion comes from the $286 billion number. That would take us down to $236 in BA for Fiscal Year 1987?

Mr. BLUM. Based on the preliminary calculations that we did in our Annual Report to the Budget Committees, which you have before you and you referred to, the $50 billion or the $49 billion cut in budget authority that you read about in this morning's press, for example, is a cut from the President's request.

Mr. DICKS. Why would it be from the President's——

Mr. BLUM. It would not be from the President's request. That calculation was merely to show where you would end up after a 1987 sequestration if no action was taken, compared to what the President has asked for.

Mr. DICKS. Well, the real number——

Mr. BLUM. Well, you would start with a base of approximately $286 billion, but after our sequestration calculations you would end up with $271 billion as the new amount of budget authority available in 1987. That implies a reduction of only about $18 billion in new budget authority from the base, from the beginning point.

Mr. MURTHA. Well, the key though here is that if we make the cuts, you do not have to go to sequestration. Is that not the key thing here?

Mr. BLUM. Well, exactly right. I think the whole purpose of this Gramm-Rudman-Hollings Act was to create, a doomsday machine that was so awful in prospect that it was not to be invoked. That it was instead to force the Congress and the Administration to come into agreement as to what is the appropriate way to reduce the deficits to the targets. It is only in the event that that policy agreement cannot be reached that this would be invoked.

CBO BASELINE PROJECTIONS

Mr. DICKS. What was the CBO baseline projection?

Mr. BLUM. For fiscal year 1987, baseline budget authority for the national defense function totaled $301 billion. Now, that assumes an adjustment for inflation only. No real growth. It also includes funding for the military personnel accounts, essentially at the 1986 program level, again adjusted for inflation.

The reason why I mention that is because part of the military personnel accounts in 1986 are being funded through transfer of unobligated balances—or we're assuming they're going to be financed through the transfer of unobligated balances from procurement and RDT&E accounts, which was authorized up to $6.3 billion in the continuing resolution.

So, if I could just relate what those figures are. Later in the briefing we will go into more detail as to what this 1987 sequestration looks like.

In terms of new budget authority for 1987, the President has requested $320 billion. The CBO baseline projection is $301 billion.

But what you would end up with, if you had to go the sequestration route, if you couldn't reach any agreement, or there were no appropriations enacted and the like, you'd end up with $271 billion as the level.

And it's——

Mr. **Murtha**. I don't understand that.

Mr. **Dicks**. I don't understand that either. Where do you get $271 billion from?

Mr. **Blum**. Well, with your permission, Mr. Chairman——

Mr. **Chappell**. Well, first of all, you assume that, the sequestration would take place. Right?

Mr. **Blum**. Yes, exactly right. If there is no new action—Congress does nothing between now and August, let us say, when we have to issue our first report to GAO—we would, be working on the basis of our February economic forecasts, and our other projections, we would calculate a base level deficit of approximately $167 billion, or roughly $23 billion above the target of $144 billion. We would then go through a series of arithmetic calculations, as to how to achieve budget reductions to eliminate that excess deficit of $23 billion.

Of that amount, we would, for defense, have to come up with outlay savings of approximately $11.3 billion, half of the amount——

Mr. **Murtha**. What are you using as a baseline? You're using the President's budget as a base?

Mr. **Blum**. No, no. We are using the 1986 appropriation levels as the starting point with no adjustments for inflation. This is taking the numbers that were——

Mr. **Dicks**. OK. What is that number?

Mr. **Blum**. Well, that number for defense, for Function 050, would be $289 billion. That includes approximately $3 billion for pay raises that are assumed in the President's budget. The Gramm-Rudman-Hollings Act says that when we do these calculations—it specifies what we are to do if there is no action—we are to include the President's pay proposals provided they are not less than zero percent.

Mr. **Chappell**. I wanted to bring out a point that he is making there. If you go to page XV of the summary, he says there, "The baseline assumes no real growth in defense and nondefense appropriations above a base already cut by the 1986 sequestration called for in the Balanced Budget Act." That is where you are starting, right? "The additional action needed to comply with the deficit targets amounts to about $37 billion in fiscal year 1987, or $354 billion over the 1987–1991 period." I just wanted to establish that it is where you are really starting from.

We assume that the 1985 budget was in balance for the purposes here, or, in satisfaction of the Act. And starting with 1986 . . .

Mr. Blum. That is correct. Well, I think if you turn, then, to page 93 of this annual report, we can very quickly go through the actual calculations. As I said, the excess deficit, based on these very constraining assumptions, which the Act tells us to make, would be $22.6 billion.

[Table III–4 follows:]

TABLE III–4.—CALCULATING THE ILLUSTRATIVE SEQUESTRATION FOR 1987

[Outlays in billions of dollars]

Sequestration items	Defense programs	Nondefense programs
Total required reductions	11.3	11.3
Savings from eliminating automatic spending increases:		
Indexed retirement and disability programs	0.6	0.6
Other indexed programs		(1)
Savings under special rules		1.5
Remaining reduction required	10.7	9.2
Sequestration outlay base	171.9	[2] 109.5
Uniform reduction percentage [3]	6.2	8.4

[1] Less than $50 million

[2] Includes $9.2 billion in estimated 1988 outlays for the Commodity Credit Corporation that can be affected by a 1987 sequestration.

[3] Remaining required reductions divided by the sequestration outlay base.

Source: Congressional Budget Office.

Mr. Blum. Half of that amount must come from defense programs; the other half from nondefense programs. So we have $11.3 billion shown there in Table 4 coming from defense programs.

The amount of savings that could be obtained by eliminating the automatic spending increases, or the cost-of-living adjustments, for certain indexed retirement and disability programs, would save roughly $600 million.

So that is credited toward the $11.3 billion for defense programs, leaving $10.7 billion, in outlays to be achieved by sequestering or cancelling new budget authority and unobligated balances for defense programs.

The outlay base, that is, the base for outlays to be spent, in fiscal year 1987 from new budget authority and unobligated balances, is estimated to be $172 billion.

We calculate the uniform percentage reduction by dividing the $10.7 billion by the $171.9 billion shown in the table. That produces a sequestration percentage of 6.2 percent. And, as Mr. Havens has explained the 6.2 percent is then applied, across the board, to each and every budget account in the defense budget, to new budget authority and unobligated balances. The result of applying 6.2 percent against the base of 289 billion in new budget authority, is $18 billion of necessary reductions.

Mr. Dicks. In BA?

Mr. Blum. In BA, in new BA. So that $18 from $289 leaves $271, is where you end up.

Mr. Dicks. Well, that is a lot less painful than we thought it was going to be about a month ago.

Mr. Blum. In terms of 6.2 percent, yes, you are absolutely right. Figures had been bandied about, as high as 18 percent for example, for defense programs, but that was based on an assumption that the excess deficit amount would be as high as $60 billion.

Now these are very preliminary estimates that we are making now. The way we arrived at that deficit of only $167 billion is shown on Table 2 page 90.

[Table III–2 follows:]

TABLE III–2.—CHANGES IN CBO BASELINE BUDGET PROJECTIONS TO CALCULATE BUDGET BASE LEVELS FOR SEQUESTRATION

[In billions of dollars]

Item	Revenues	Outlays	Deficit
CBO Baseline projections [1]	844.0	1,025.3	181.3
Changes:			
Assume termination of expiring provisions of law:			
General revenue sharing		−3.4	−3.4
Federal employee retirement adjustment	0.6		−.06
Exclude discretionary inflation and other adjustments to 1986 appropriation (postsequestration) levels:			
Defense programs		−7.5	−7.5
Nondefense programs		−2.6	−2.6
Adjust net interest costs		−0.6	−0.6
Total changes	0.6	−14.1	−14.7
Budget base levels [1]	844.6	1,011.2	166.6

[1] Calculated using the CBO February economic forecast discussed in Chapter I.

Source: Congressional Budget Office.

IMPACT OF OUTLAY REDUCTION ON BUDGET AUTHORITY

Mr. Chappell. Mr. Blum, if you look toward the 6.2 percent reduction for defense, now you are still talking about outlays and you are still talking about $15 to $16 billion just on those figures in budget authority. Is that not correct?

Mr. Blum. Yes, sir. In order to achieve outlay reductions of $10.7 billion, new budget authority would have to be reduced by $17.9 billion and unobligated balances by another $3.1 billion.

Mr. Chappell. So you are talking about $20 billion?

Mr. Blum. It is about $21 billion.

Mr. Chappell. $21 billion.

Mr. Blum. In total. So the ratio would be 21 to 10.7. That is a lower ratio than occurred for 1986, and the reason is that military personnel accounts are not exempt for 1987.

The President does not have that flexibility now. Those are very fast-spending accounts, the fastest-spending accounts of all in the defense budget, and therefore they contribute a whole lot to the outlay base.

Mr. McDade. Would you yield, Mr. Chairman?

Mr. Chappell. Yes.

VOLATILITY OF FY 1986 DEFICIT ESTIMATES

Mr. McDade. Mr. Blum, the maximum deficit for fiscal year 1986 in Gramm-Rudman was set at $171 billion, and I believe the amount above that, when the Act was adopted, was estimated at about $20 billion.

We are now talking about a deficit of about $49 billion, as I understand it, for the same fiscal year. That is correct, is it not?

Mr. BLUM. Yes. The presequestration deficit for fiscal year 1986, the average of the CBO and OMB estimates, turned out to be $220.5 billion, which is——

Mr. McDADE. $49 billion, roughly, above this?

Mr. BLUM. Yes, sir.

Mr. McDADE. Similarly, for fiscal year 1987, the excess deficit was estimated at about $60 billion about a month ago. My understanding is that it is now quite a bit smaller in this snapshot.

Mr. BLUM. Well, in this snapshot, we have it down to under $23 billion.

Mr. McDADE. Okay. What I am trying to get at here is, the Act is tied so much to that figure. Can you advise us as to what kind of a margin of error the committee ought to build in as we begin to allow for reduction packages in fiscal year 1987?

Mr. BLUM. There is no question that these estimates of the deficit are extremely sensitive to the underlying economic assumptions and other technical estimating factors.

To give you an example of how quickly those numbers can change, when CBO was working with the Conferees on the Gramm-Rudman-Hollings Act in November, we were asked to do an illustrative base level calculation of what a sequestration might look like, what the deficit might look like for fiscal year 1986. Under the specifications of the Act, assuming 1985 appropriation levels, assuming current laws as they were in existence at that time, in November, and using our August economic assumptions, we came up with a deficit figure of about $195 billion.

Two months later, in our report, the deficit figure had risen to $220 billion, or an increase of $25 billion, in a two-month period. You could well wonder how that is possible.

Mr. McDADE. Yes. Well, I was going to ask, what was that attributable to? How did you come to that figure?

Mr. BLUM. Yes. Well, of that $25 billion increase, about $10 billion could be attributed to changes in the underlying economic assumptions.

Most of that was lower revenue estimates as a result of a somewhat slower growth in the economy than had been forecast last August. So updating the August economic assumptions to the January look, economic growth was not quite as great as expected, lowering revenues by about $10 billion.

Now the other $15 billion came as a result of a combination of Congressional actions in November and December, as well as what we call "technical re-estimates."

The biggest change of all, about $10 billion, was for the Farm Price Support Programs. The Farm Bill that was passed by the Congress in December added to 1986 costs by roughly two to three billion dollars.

In addition, the conditions of the prices for farm commodities deteriorated such that under the Act, we were going to have to spend seven to eight billion more in Farm Price Support Programs. We call that a "technical re-estimate."

Mr. McDade. Are there any more examples that you wanted to give?

Mr. Blum. Well, the other example is the defense budget. As I said, the November estimate was based on 1985 appropriation levels.

The actual level appropriated for defense in 1986 was somewhat higher, resulting in approximately $4 billion more in outlays, and we also had a technical re-estimate on the rate of spending for defense programs in 1986, which added another $3 billion to $4 billion.

So, a combination of Congressional action, on the one hand, and technical re-estimates, based on later information, on the other, produced higher outlays.

Mr. McDade. What I am trying to get to is: I see the complexity of the problem that you have, and that we face. I had not thought about Congressional actions that either add to the deficit or subtract from the deficit; that is available.

And the rest of it is largely predictions of what the economy is going to do, based on inflation, unemployment, and real growth in the economy. I realize that there is no way you can sit there now, and tell me that the Congress might add "X" dollars or subtract "Y" dollars from the fiscal year 1987 estimates, but have you any kind of a rule-of-thumb, or anything, that can help us understand the impact on the deficit if the variables of unemployment, inflation, and growth in the economy change?

Is there any rule of thumb, for example, or separate rules of thumb that we can look at?

Mr. Blum. In our report, which we have before us, we do calculate rules-of-thumb that are used from time to time. These appear on page 72 of this document in Table II-6, where the effects of one-percentage-point differences in real growth, unemployment, interest rates, and inflation are shown.

Assuming a 1 percent higher rate of real growth starting in January of 1986, the fiscal year 1987 effect of that would be to reduce the deficit by $19 billion.

So a one-percentage-point change in real growth can have a very sizable effect on the deficit.

Mr. McDade. Well, I am looking with terrible trepidation at the figure below that, which is unemployment, and the effect of a one percent change, and I see a figure of $44 billion in fiscal year 1987. Is that the extent it would add to the deficit, if we had a one percent——

Mr. Blum. Beginning in January 1986. That shows the sensitivity of the budget to a change of that magnitude.

Now, I would point out, that if you had a change of unemployment of that magnitude, it would imply a greater change in real growth.

In other words, the $44 billion is much larger than the $19 billion. If you had a change of 1 percent in unemployment, the chances are you have a change in real growth on the order of 2 percent.

Mr. McDade. Well, I guess what we are saying is that if the economic assumptions in the budget change even slightly, that there can be tremendous impact on the amount of the deficit?

Mr. BLUM. Absolutely. When you consider the magnitudes of the Federal budget; that we are dealing with revenues approaching $900 billion; that we have outlays at about $1 trillion; then an estimating error of only 1 percent translates into a change of $10 billion in both revenues and outlays. If you get those going in the right directions, it could translate into a deficit change of $20 billion.

Now, a one-percentage-point accuracy is considered very good by most forecasters. They say their forecasts are essentially accurate if they come within 1 percent. I think if I can estimate outlays to within 1 percent next year, I will be doing a good job.

But that 1 percent can translate into a very big change for purposes of implementing the Gramm-Rudman-Hollings Act. For example, if you look on page 95 of this report, for every $10 billion increase in the excess deficit, the sequestration percentage, reductions for defense would change by about three percentage points. Those for nondefense would change by four and a half percentage points.

Mr. MCDADE. Would you, for purposes of our further education, give us the numbers in BA and outlay authority we would have to get in fiscal year 1987, assuming that kind of a scenario.

Mr. BLUM. Well, if instead of, say, the $22 billion excess deficit, we were talking in terms of, come August, an excess deficit of, say, $40 billion, looking on page 95, we see that the sequestration reduction would rise to 11.3 percent. That's assuming everything else, in terms of these calculations, stays the same—which is a very big assumption indeed.

So, if we took the 11.3 against the base of 289.2, the amount of new budget authority reduction would be close to $33 billion instead of the $18 billion that we previously spoke of.

Mr. MCDADE. And that is budget authority?

Mr. BLUM. That would be new budget authority, yes.

Mr. MCDADE. So, would you put into the record what your estimate is, and tell us what your estimate would be with respect to BA for defense, to get the outlay number for defense that we need. A ballpark number; I realize you cannot do it specifically.

Mr. BLUM. Well, again, taking that reduction, if we had a sequestration of 11.3 percent for 1987, that would require a reduction of $32.7 billion in new BA which would then produce a new level of $256.5 billion in total new BA for the national defense function, compared with the $271 that we calculated here for illustration, or the $289 which would be the base.

Mr. MCDADE. Mr. Chairman, could I ask permission to have inserted in the record at this point, Table II-6 that Mr. Blum has been referring to, and also Table III-5 on page 95. And I would be grateful if you could break out those numbers based upon changes in the economic scenario that we were talking about, the variables in there, if that can be done readily.

[The information follows:]

TABLE II–6.—EFFECTS ON CBO BASELINE BUDGET PROJECTIONS OF SELECTED CHANGES IN ECONOMIC ASSUMPTIONS

[By fiscal year, in billions of dollars]

Economic variable	1986	1987	1988	1989	1990	1991
Real growth: Effect of one percentage-point higher annual rate beginning January 1986:						
Change in revenues	4	16	32	49	69	91
Change in outlays	−1	−3	−6	−12	−18	−26
Change in deficit	−5	−19	−38	−61	−88	−118
Unemployment: Effect of one percentage-point lower annual rate beginning January 1986:						
Changes in revenues	23	37	36	37	39	41
Change in outlays	−3	−7	−11	−15	−19	−22
Change in deficit	−26	−44	−48	−52	−57	−63
Interest rates: Effect of one percentage-point higher annual rates beginning January 1986:						
Change in revenues	([1])	1	1	1	1	1
Changes in outlays	3	10	16	19	23	27
Change in deficit	3	9	15	18	22	25
Inflation: Effect of one percentage-point higher annual rate beginning January 1986:						
Change in revenues	5	15	27	39	52	68
Change in outlays	3	14	27	39	52	65
Change in deficit	−2	−1	([1])	−1	([1])	−3

[1] Less than $500 million.

Source: Congressional Budget Office.

TABLE III–5.—SEQUESTRATION PERCENTAGE REDUCTIONS UNDER ALTERNATIVE BASE LEVEL DEFICIT ESTIMATES FOR 1987

[In billions of dollars]

Base level deficit	Excess deficit	Sequestration percentage [1]	
		Defense programs	Nondefense programs
194	50	14.2	20.9
184	40	11.3	16.3
174	30	8.4	11.8
164	20	5.5	7.2
154	10	2.6	2.6

[1] Assumes no changes in the sequestration outlay base for defense and nondefense programs from those shown in Table III–4, and no changes in the savings from eliminating automatic spending increases and from applying special rules for Medicare and other programs.

Source: Congressional Budget Office.

Mr. McDade. In other words, suppose we got a one percent change on unemployment and one percent in inflation, any one of the variables that are in those economic assumptions, if you could give us some guidance to let us know what the potential effect on the deficit is.

Mr. Blum. Well, I do not know that I would be able to do much more than what we have shown in table II–6. I mean, that gives you the total change in the deficit amounts.

Mr. McDade. You can translate Table III–5 into the necessary budget authority for each of those scenarios, can't you?

Mr. Blum. Yes, sir.

[The information follows:]

The following table shows how many budget resources—budget authority and unobligated balances—would be sequestered for alternative base level deficits. For example, a base level deficit of $194 billion would exceed the maximum allowable deficit by $50 billion. As a result, defense programs would lose about $48.2 billion in budget resources—about $41 billion in new budget authority and about $7.2 billion in unobligated balances. These reductions would represent about 14.2 percent of the sequesterable resources.

SEQUESTRATION FOR DEFENSE PROGRAMS UNDER ALTERNATIVE BASE LEVEL DEFICIT ESTIMATES FOR 1987

[In billions of dollars and percent]

Base level deficit	Excess deficit	Sequestration in dollars			Sequestration percentage
		Budget authority	Unobligated balances	Total resources	
194	50	41.0	7.2	48.2	14.2
184	40	32.7	5.7	38.4	11.3
174	30	24.3	4.2	28.5	8.4
164	20	15.9	2.8	18.7	5.5
154	10	7.5	1.3	8.8	2.6

MILITARY PERSONNEL EXEMPTIONS

Mr. CHAPPELL. One more thought. What would have happened, for example, if we had not exempted personnel in the 1986 budget? What would have been the effect on the military? Have you projected that? Just personnel only.

Mr. BLUM. Yes, sir. The sequestration reduction would not have been 4.9 percent in that case; it would have been I think 3.1 percent. So it would have been a 3.1 percent reduction in the new budget authority and unobligated balances for defense, and for the military personnel accounts.

Do you want that translated into dollars as well as——

Mr. CHAPPELL. Dollars as well as men, as well as personnel, because it is my understanding that if we had not exempted personnel, and personnel had taken the cut just like everything else, that we would have had to bring about 170,000 troops home. I want to know if that is correct.

Mr. BLUM. We have done some calculations and arrived at a figure of approximately 200,000——

Mr. CHAPPELL. 200,000?

Mr. BLUM [continuing]. 200,000 military personnel would have to be discharged.

Mr. CHAPPELL. My figure was a little low, then.

Mr. MCDADE. Mr. Chairman, may I ask one more question on this point?

Mr. CHAPPELL. Go ahead.

PROGRAM, PROJECT, AND ACTIVITIES

Mr. MCDADE. The joint CBO/OMB report, and the GAO report, incorporate the so-called R-1 and P-1 line items designated, as specified by the Appropriations Committee. Correct?

Mr. BLUM. Yes, sir.

Mr. MCDADE. We had additional language in the definition of so-called PPA, and I do not know if this is reflected in the reports. Why didn't you also reflect that part of the definition which says—

and I am quoting from the Continuing Resolution—"The most specific level of budget items identified in the Department of Defense Appropriations Act, 1986, the Conference Report, and the accompanying joint explanatory statement of the managers of the Committee of Conference on the Further Continuing Resolution For 1986."

[CLERK'S NOTE.—The applicable portion of H. Rept. 99-433 and H. Rpt. 99-450 follow:]

EXCERPT FROM HOUSE REPORT 99-433, INCREASING THE STATUTORY LIMIT ON THE PUBLIC DEBT, DECEMBER 10, 1985

d. Sequestration by Programs, Projects, and Activities

House Amendment

Section 252 of the House-passed bill defines and determines the procedures for the "Presidential Order": Paragraph C of that Section provides that sequestration for funds provided in annual appropriations acts shall be applied to "each affected program, project, and activity (as defined in the most recently enacted applicable appropriations acts and accompanying committee reports for the program, project, or activity in question—including joint resolutions providing continuing appropriations and committee reports accompanying acts referenced in such resolutions)."

Since most appropriations acts were already reported by the time this legislation was being developed, a provision was included to allow the Appropriations Committees to define for Fiscal Year 1986 "programs, projects, and activities." The provision is as follows: "For purposes of applying this Section and Section 251 with respect to the Fiscal Year 1986, the Committees on Appropriation of the House of Representatives and the Senate may define the term "program, project, and activity" with respect to matters within their jurisdiction, for purposes of implementing the provisions of this Section with respect to the Fiscal Year 1986. The order issued by the President shall sequester funds in accordance with such definitions."

Further language was also adopted in the House-passed bill that stated that the sequestration order would have no effect unless it reduced all programs, projects, and activities proportionately.

Senate Amendment

The Senate amendment included language similar to the House, which provides for sequestration "from each affected program, project, or activity (as defined in the most recently enacted relevant appropriations acts and accompanying committee reports)."

Conference Agreement

The conference agreement provides that sequestration shall apply at the program, project, or activity level as set forth in the most recently enacted applicable appropriations acts and accompanying committee reports for the program, project, or activity involved, including joint resolutions providing continuing appropriations and committee reports accompanying acts referred to in such resolutions. For programs which are not defined at the program, project, or activity level, the sequestration would be applied at the account level.

For FY 1986 a special provision is included, similar to the House provision which allows the Committees on Appropriations to define "program, project, and activity" and issue a report to their respective Houses. The Presidential sequestration order would have to be in accordance with such a definition.

In accordance with provisions in both the House and Senate bills, no action under sequestration can be taken by the President which would have the effect of eliminating any program, project, or activity of the Federal government.

EXCERPT FROM HOUSE REPORT 99-450, HOUSE JOINT RESOLUTION 465, FURTHER CONTINUING APPROPRIATIONS FOR FISCAL YEAR 1986, DECEMBER 19, 1985

DEFINITION OF PROGRAM, PROJECT, AND ACTIVITY

Amendment No. 10: Inserts a provision which identifies the part of the statement of the managers entitled "Definition of Program, Project, and Activity as provided for by Public Law 99-177, the Balanced Budget and Emergency Deficit Control Act of 1985" as the report filed by the House and Senate Committees on Appropriations defining "program, project, and activity" pursuant to section 252(a)(6)(D)(i)(II) of Public Law 99-177.

The House language, which was stricken by the Senate, provided for the Military Construction Appropriations Act, 1986 (H.R. 3327), at the rate specified in the conference report. The President signed H.R. 3327 into law on December 10, 1985. Therefore, the language specifying funding levels has been deleted.

The following section provides the definition of "program, project, and activity" as provided for in the Balanced Budget Act and is arranged in appropriations bill order.

DEFINITION OF "PROGRAM, PROJECT, AND ACTIVITY" AS PROVIDED FOR BY PUBLIC LAW 99-177, THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985

The balanced budget act provides that when funds provided in annual appropriations Acts are sequestered, it shall be done from each affected program, project, and activity as set forth in the most recently enacted applicable appropriations Acts and accompanying committee reports including joint resolutions providing continuing appropriations and accompanying reports for the program, project, or activity in question.

Since most appropriations Acts were already reported by the time the balanced budget legislation was considered, a special provision was included in Public Law 99-177 to allow the Appropriations Committees to define for fiscal year 1986 "programs, projects, and activities." The provision is as follows:

"The Committees on Appropriations of the House of Representatives and the Senate may, after consultation with each other, define the term program, project, and activity, and report to their respective Houses, with respect to matters within their jurisdiction, and the order issued by the President shall sequester funds in accordance with such definition."

The following report is submitted by the managers on behalf of the Committees on Appropriations to their respective Houses for the purposes of Sec. 252(a)(1)(B)(i) and Sec. 252(a)(6)(D)(i)(II) of Public Law 99-177:

DEPARTMENT OF DEFENSE

For the purposes of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177), the following information provides the definition of the term "program, project, and activity" for appropriations contained in the Department of Defense Appropriations Act. The term "program, project, and activity" shall include the most specific level of budget items identified in the Department of Defense Appropriations Act, 1986 (H.R. 3629), as passed the House on October 30, 1985 and as reported by the Senate on November 6, 1985, the House and Senate Appropriations Committee reports (H. Rept. 99-332 and S. Rept. 99-176 and the related classified annexes), the conference report and the accompanying joint explanatory statement of the managers of the committee of conference on the Further Continuing Resolution, 1986 (H.J. Res. 465, including the related classified annexes), and the P-1 and R-1 budget justification documents as subsequently modified by Congressional action.

In carrying out the Presidential sequestration order, the Department and agencies shall conform to the definition for "program, project, and activity" as set forth above, and in addition:

For the Military Personnel accounts, the definition shall include the appropriation accounts identified in the Department of Defense Appropriations Act, 1986, the Further Continuing Resolution, 1986 (H.J. Res. 465), and the accompanying House, Senate, and conference reports and accompanying statements of the managers, and further delineated in the program and financing schedules set forth in the Appendix to the Budget of the United States Government for fiscal year 1986, as modified by subsequent Congressional action.

For the Operation and Maintenance accounts, the definition shall include the appropriations accounts identified in the Department of Defense Appropriation Act, 1986, the Further Continuing Resolution, 1986 (H.J. Res. 465), and the accompanying House, Senate, and conference reports and the accompanying statements of the managers and further delineated in the program and financing schedules set forth in the Appendix to the Budget of the United States Government for fiscal year 1986, as modified by subsequent Congressional action.

For the National Foreign Intelligence Program, the definition shall further include the expenditure centers identified in the Congressional budget justification documents for fiscal year 1986, as modified by subsequent Congressional action.

The Department and agencies should carry forth the Presidential sequestration order in a manner that would not adversely affect or alter Congressional policies and priorities established for the Department of Defense and related agencies.

Mr. McDade. We included that as a part of the definition but I do not know that you made use of it. Did you?

Mr. Blum. I think as I understand it—and it was the Defense Department that was primarily responsible for coming up with the calculations at the program project activity level—the feeling was that the P-1 and the R-1, and I guess, is it C?, C-1, in effect, was the level of detail that was desirable for the defense programs.

This is a level of detail that this committee works with and is familiar with. It is a level of detail that the Pentagon works with and it is on computers and it could be done in a timely fashion.

I think the interpretation was that that meant, really, the specifications for those particular accounts. I do not know if there was any level of detail that went even beyond that.

Mr. McDade. There was. We had——

Mr. Blum. If there was, it may well have been that there simply was not time or data available in order to do it.

Mr. McDade. All right. What I need to do, then, and what the committee needs to do, is to make you aware of that part of the budget that includes that definition, and express our feeling that you ought to follow that if we get into this again.

Mr. Blum. Well, we certainly will be happy to do that. I think we could work with the committee to make sure that we are all aware of exactly the appropriate level of detail, and to make sure that we——

Mr. McDade. And we will make sure that the budget people across the river are aware as well. Thank you, Mr. Chairman.

MILITARY PERSONNEL

Mr. Chappell. Let us take the 1987 budget where we will have no flexibility whatsoever—that means zero flexibility. That means personnel, all other accounts, have to be cut exactly the same percentages.

Now would you project what that would do to personnel, for example, if you did not exempt personnel, and they would not now be exempt?

Mr. Blum. Well, I think in the case of 1987, we are again talking probably about a minimum of 200,000 military personnel being affected, and it could be higher.

Mr. Chappell. You are talking about active duty personnel?

Mr. Blum. Yes, and I guess it could be higher under certain circumstances.

CONSTITUTIONALITY OF GRAMM-RUDMAN-HOLLINGS

Mr. Chappell. Thank you. Let us turn, if we might, to the question of constitutionality of Gramm-Rudman-Hollings, Mr. Havens, I wonder if you would summarize for us the prevailing argument in the recent court decision requiring the constitutionality of the Gramm-Rudman-Hollings Act.

Mr. Havens. Certainly, Mr. Chairman. The opinion of the three-judge special panel was quite lengthy, and I will not seek to cover it entirely.

The key argument on which they based their opinion, was that the Comptroller General could not exercise the responsibilities assigned to him under the Gramm-Rudman-Hollings Act, because he is removable by a joint resolution of Congress, for cause.

Mr. **Chappell.** Not therefore an employee of the Executive Branch?

Mr. **Havens.** Not therefore, arguably, an officer of the United States, as defined in the Constitution.

MILITARY PERSONNEL

Mr. **McDade.** Mr. Chairman, I am sorry to interrupt, but you raise an excellent point about Gramm-Rudman-Hollings and impacts on personnel. I have asked that Table III-5 on page 95 be made a part of the record.

That is the one that shows the variable amounts, and dependent on the deficit. Could you add a new column in there and exempt all the personnel accounts, like my friend the Chairman was talking about, and give us a column that would show what you have to get in defense, if you totally ignore personnel accounts. Would you put that in. I think it may be helpful to us.

Mr. **Chappell.** And what happens if you do not exempt personnel?

Mr. **Blum.** Personnel. Yes, sir.

[The information follows:]

The following table shows how many budget resources would be sequestered under alternative base level deficits if military personnel were exempt from a sequester. (In 1986, all but 9 percent of military personnel was exempt). For example, a $50 billion excess deficit would require that about $51.5 billion of budget authority and $11.9 billion of unobligated balances would be sequestered for a total of $63.4 billion. This total represents 23.5 percent of the sequesterable resources compared to 14.2 percent if military personnel were included in the sequestration.

SEQUESTRATION FOR DEFENSE PROGRAMS UNDER ALTERNATIVE BASE LEVEL DEFICIT ESTIMATES FOR 1987 AND WITH A TOTAL EXEMPTION FOR MILITARY PERSONNEL

[In billions of dollars and percent]

Base level	Excess	Sequestration in dollars			Sequestration
		Budget	Unobligated	Total	
194	50	51.5	11.9	63.4	23.5
184	40	41.0	9.5	50.5	18.7
174	30	30.5	7.0	37.5	13.9
164	20	20.0	4.6	24.6	9.1
154	10	9.4	2.2	11.6	4.3

CONSTITUTIONALITY

Mr. **Chappell.** Go ahead, Mr. Havens.

Mr. **Havens.** Well, that is the essence of the opinion.

Mr. **Chappell.** When is the Supreme Court expected to rule, for the record?

Mr. **Havens.** Well, I would not want to predict when the Supreme Court will act. We, the General Accounting Office, through our counsel, filed a Jurisdictional Statement in connection with our appeal yesterday.

There is provision for expedited consideration. We are assuming that the Supreme Court will rule on the issue during its term this year, which ends in June.

Mr. CHAPPELL. And would you tell us how the GAO is affected by the decision.

Mr. HAVENS. Well, at this point, of course, the decision is only in the lower courts and has not taken effect yet, having been stayed. The effect on the General Accounting Office will of course depend on how the Supreme Court ruled. If the Supreme Court does sustain the lower court it would clearly take us out of the Gramm-Rudman-Hollings process.

What other effects it might have on GAO's other responsibilities, which have sometimes been characterized as being of an executive nature, is impossible to tell at this point, since we do not know the sweep and the wording of whatever ruling the Supreme Court may choose to issue.

Mr. CHAPPELL. Can you summarize the functions which GAO would no longer perform if the decision is ratified by the Supreme Court, upheld by the Supreme Court?

Mr. HAVENS. Well, the one that we can be sure of is that it would take us out of Gramm-Rudman-Hollings. I cannot predict beyond that.

Mr. CHAPPELL. And if it upholds the lower court's decision, which function would you continue to perform, if any, under Gramm-Rudman-Hollings?

Mr. HAVENS. On Gramm-Rudman, the only thing that would remain, would be at least arguably the compliance report, which would follow execution of the fallback procedure, if that procedure were retained.

Of course in terms of GAO's broad responsibilities, we would clearly retain the function of audit and analysis, and evaluation on behalf of Congress. That clearly, will not be affected; what other things might be affected is simply impossible to tell.

Mr. CHAPPELL. And how does this decision affect the maximum deficit amounts' and the automatic process for getting to them that Gramm-Rudman-Hollings established?

Mr. HAVENS. Well, the maximum deficit amounts, assuming that the Supreme Court upholds the lower court decision but does not go beyond that in terms of challenging Gramm-Rudman, would remain in law; they would still be there.

The automatic procedures for implementing sequestration would not be there. Instead, there would be the fallback procedure which would have the CBO/OMB report issued to the Congress, rather than to the Comptroller General.

The Congress would then have procedures in place under the Act, called the fallback procedures, by which they report out and vote on a joint resolution embodying in the CBO/OMB report.

If the Congress should enact that joint resolution and the President sign it, it then becomes the equivalent of the Comptroller General's report under current procedures, and is binding on the President to effect a sequestration.

Mr. CHAPPELL. And that is the Budget Committee that has a fallback position, or——

Mr. **Havens**. I believe the Budget Committees report out the resolution, as I recall it, with a very prescribed timetable.

Mr. **Dicks**. Would the Chairman yield just for a question. As I understand it, what they basically said is, we cannot do this thing automatically, Congress has to vote on the actual order to implement the cuts, is that not correct?

Mr. **Havens**. The lower court said that the Comptroller General's role is not constitutional.

Mr. **Dicks**. So what that means is, on—assuming we did not construct an alternative that the President signed, we would still go ahead and make the calculation that would have been made under Gramm-Rudman-Hollings.

But instead of that automatically going into place, we, the Congress, would have to vote for it, is that correct?

Mr. **Havens**. That is correct.

Mr. **Dicks**. My own judgment is, that will be a powerful incentive for us to come up with an alternative.

Mr. **Chappell**. Mr. Livingston.

Mr. **Livingston**. I just wanted to take it one step further. Everything you said is true. But if we were to delegate the authority instead to the Comptroller General, to OMB, or one of the Executive agencies?

Mr. **Havens**. Correct. The law could be amended to assign that responsibility to the director of OMB, and reading the opinion of the lower court, it appears that the lower court, at least, would judge that to be constitutional.

Mr. **Chappell**. The bottom line is that since this is a statute, that the Congress can do anything it wants to, even with acts under the so-called provisions of Gramm-Rudman-Hollings, exempt any part and rewrite at that point because it is a statute. So the Congress cannot bind another Congress and we cannot bind ourselves from day to day. So we may be back to looking at a constitutional amendment, if we want some continuity and some real long-range results from what we are trying to do. That is an opinion of mine.

Mr. **Havens**. I would prefer not to voice an opinion on it myself, sir.

OUTLAYS SUBJECT TO SEQUESTRATION

Mr. **McDade**. Mr. Chairman, would you yield. We all know that the law of Gramm-Rudman-Hollings exempts some programs, limits reductions in others, and has some special cases, about three categories, I guess, where they make some kinds of exemptions or changes.

After all those are taken into account, what percentage of total Federal outlays are subject to sequestration?

Mr. **Havens**. Well, I think Jim has done those calculations more recently than I.

Mr. **Blum**. Well, for fiscal year 1986, the percentage of outlays subject to sequestration of some kind or another works out to be roughly 35 percent, but for some portion of that it was a limited reduction, more limited than the uniform reduction in budget authority of 4.9 percent in the case of defense, or 4.3 percent in the case of nondefense.

What I am thinking of is that the military retirement and the civil service retirement programs could be reduced only by the amount of the cost-of-living adjustment that otherwise would go into effect.

That works out to be about 3.1 percent for those. That was the value of the COLA. In the case of Medicare and certain other health programs for 1986, the reduction was limited to 1 percent of certain program elements.

So you can answer the question in different ways, but at any rate, taking all of the programs that had outlays in 1986, that were affected in one way or another, either in a limited amount or by the full across-the-board reduction, about 35 percent of total outlays were subject to some kind of sequestration, taking into account that the military personnel accounts were exempted by the President.

For 1987, looking at our report here, one can see in Table III.3 on page 91 that roughly 41 percent of total outlays would be affected.

I am looking here at 17 percent of defense outlays subject to across-the-board reduction, and we have under nondefense programs those with automatic spending increases, certain special programs such as Medicare, and then the remaining outlays subject to across-the-board reduction, which together contribute another 25 percent, roughly.

Mr. McDade. Now if we were to translate that figure of 17 percent into a budget authority figure, what kind of budget authority might we get in 1987, in order to get the outlay reduction?

Mr. Blum. You mean in terms of the budget authority that is affected?

Mr. McDade. Yes. Well, in this table, you are showing 17 percent of the defense budget as one being——

Mr. Blum. Well, 17 percent of total outlays. That is about 62 percent of the defense budget, 62 percent of the outlays in 1987 for national defense, would be subject to sequestration.

Mr. McDade. Why not a hundred percent?

Mr. Blum. Well, the reasons are that some outlays derive from obligated balances, from past-year appropriations.

Mr. McDade. We are building an aircraft carrier and completing the contract.

Mr. Blum. That is exactly right. What we are talking about is the new budget authority, the new resources that come into play in 1987, plus unobligated balances from past-year appropriations.

But where contracts have been written and the funds have been obligated, those are not subject to sequestration, although the Secretary of Defense can choose to terminate, or cancel, or otherwise modify some of those contracts in order to achieve some of these savings; but it is not required.

Mr. McDade. Okay. But as we look at it, we are talking about perhaps a third to 40 percent of the budget being available to meet Gramm-Rudman-Hollings. And fifty percent of that would be DOD responsibility in outlays?

Mr. Blum. Close to it, yes.

Mr. McDade. All of that this time would be subject to automatic sequestration without any flexibility?

Mr. Blum. That is correct.

Mr. McDADE. Thank you, Mr. Chairman.

Mr. CHAPPELL. Mr. Murtha.

Mr. MURTHA. I have no questions, Mr. Chairman.

Mr. CHAPPELL. Mr. Dicks.

TERMINATION OF CONTRACTS

Mr. DICKS. Since the termination or modification of an existing contract cannot violate a legal obligation of the Federal government, what does "legal obligation of the Federal government" mean to you in this context?

Mr. HAVENS. If you are directing the question to me, Mr. Dicks, from GAO's standpoint, looking at the history of the legislation, it seems to me that it is not entirely clear what is meant by legal obligation of the Federal government in that context.

A contract is a contract; a contract can be terminated under certain provisions of law, and certain provisions of the contract itself.

So I would be somewhat at a loss to go further than the language of the statute in understanding what it means.

Mr. DICKS. What does the language of the statute mean, in your judgment?

Mr. HAVENS. It means that you comply with the contract and if the contract has provisions for termination, which all defense contracts do—in fact all government contracts—then it can be terminated under certain conditions and certain——

Mr. DICKS. It says "The savings must exceed penalty costs built into the contract."

Mr. HAVENS. In order to qualify as an offset to otherwise required Gramm-Rudman reductions, the outlay savings from terminating the contract must be positive.

In other words, the payments that would occur in the year, under termination, must be less than the payments that occurred in the year from continuation of the contract.

Otherwise it would not yield savings, creditable for Gramm-Rudman purposes.

Mr. DICKS. "Selection of a contract in the program, project, or activity involved must be fully explained by the President under the terms of Gramm-Rudman-Hollings."

Would you have enough time, under the timetable of the Act, to evaluate and verify the savings proposed?

Mr. HAVENS. I cannot give a flat answer to that. There were no such terminations proposed in 1986, so we do not yet have any experience with it.

The answer would depend on the number of such contracts that were proposed, the quality of the information that DOD supplied, whether it was clear, whether it was reasonably convincing without additional audit work on our part to determine the amounts involved.

It would depend in part on the complexity of the contracts themselves, our ability to estimate the termination costs associated with the contract.

There are a lot of imponderables which mean I would be hard-pressed to answer firmly that we would be able to do it, but I expect we would.

It would particularly help, I would add, if we had advance notice, earlier than the time required in the Act.

Mr. DICKS. If the President chose not to use this authority at all in the fiscal year 1986 sequestration, would you anticipate significant use of this authority, if sequestration were required, in fiscal year 1987?

Mr. HAVENS. I really have no basis for speculating as to whether they would choose that course of action, or not. We have had no indications, one way or the other, of any formal nature.

Mr. DICKS. There has been some discussion that the Administration is going to ask Congress to give it some flexibility on how to make these cuts in developing an alternative.

In other words, the Defense Department is going to say, "Don't give us the across-the-board approach. Let us have some discretion like we had in the fiscal year 1986 sequestration." I would like to have your comment on that and what you think of that.

And secondly, are the domestic agencies going to ask for the same kind of flexibility, in your judgment?

Mr. HAVENS. Well, we have certainly heard reports that DOD, and the President, on behalf of DOD, were going to ask for additional flexibility in 1987 along the lines of what they had in 1986.

I would say that that is really an issue, a policy issue on which I would have to defer to the Congress. There are arguments, clearly, on both sides.

It is to me reasonably apparent that the lack of flexibility, if continued—and assuming Gramm-Rudman reductions of any significant proportions—will yield inefficiencies.

Things will be done that will, in retrospect, look inefficient. Costs will go up. That sort of bad effect will result from lack of flexibility.

On the other hand, the Congress has chosen in this Act not to provide that flexibility and had, I presume, good and sufficient reason for making the decision that it did, to not provide that flexibility beyond 1986.

So I will defer on that issue to the Congress' own judgment.

DEFENSE OUTLAY ESTIMATES

Mr. DICKS. The CBO has recently reestimated defense outlays for fiscal year 1987. What are the factors that brought your estimate of defense outlays for fiscal year 1987 about $14.7 billion higher than those estimated in the President's Budget for fiscal year 1987?

This obviously is a very important question. The people from the Defense Department absolutely swear on a stack of bibles that they do not cheat on their outlay estimates, and that they have been very accurate in the past.

What leads you to believe that there is a $14.7 billion difference this year?

Mr. BLUM. Well, Mr. Dicks, that reestimate comes about by applying historical spending rate patterns to the budget authority being requested in the President's Budget.

These historical spending patterns that CBO has, which are somewhat different from those of the Defense Department but not all that different, when applied to the new budget authority amounts, and amounts that have been appropriated in past years, produces outlays that are higher by some $14 billion to $15 billion for 1987.

And you get that result whether you use the CBO spending patterns or whether you use the Defense Department spending pattern. I cannot explain, precisely, how the defense outlays that appear in the President's Budget were calculated, but it seems clear to us that these historical spending patterns, or the patterns the Defense Department itself says that it uses, were in fact not used in this instance.

We get some clue as to what was going on in terms of testimony that OMB Director Miller has given, and in terms of some information that the Defense Department has put out, that the 1987 defense outlays are to reflect the levels contained in the Congressional Budget Resolution for 1987, as though that were the starting point for the outlays in the President's Budget.

If you recall, the 1986 Budget Resolution adopted by Congress last year, in the case of the national defense function, was based on the budget authority targets of the Senate, and the lower outlay targets of the House, without any specific programmatic content underlying either set of targets.

Mr. DICKS. That does not sound unusual to me.

Mr. BLUM. Well, I guess that was a way of splitting the difference, if you will. In conference we will take one set of figures from one House and the other from the second——

Mr. CHAPPELL. Regardless of the facts. Go ahead.

Mr. BLUM. Regardless of the facts. But the point is, that that was for a set of programs that nobody knew. I mean, they were not specifying programs. And one could only say, well, those are reasonable figures, if you just look broadly at the ratio of total outlays, on the one hand, and total new budget authority, on the other.

That is within the historical range, if you will, but we do not know what we are buying for that. Now the President's budget, on the other hand, has very specific content. It is enumerated budget account by budget account.

And if we take our spending rates, or if we were to take the Pentagon spending rates, and apply them to those accounts, we end up with outlays that are $14 billion to $15 billion higher than in the President's Budget.

Now the Pentagon will go further and say, well, we think there are a whole number of reasons why these historical spending rates no longer apply for 1987, but we have examined the reasons and do not feel convinced that they apply—that we can no longer use these historical spending rates.

Mr. DICKS. All right. Let me ask you this. Your whole program here, your Gramm-Rudman cuts, your deficit picture for 1987, is all based on your numbers, right?

Mr. BLUM. That is correct.

Mr. DICKS. Yes. We are dealing with $166 billion deficit estimate, even with this, is that correct?

Mr. BLUM. Well, that is only the CBO view. Mind you, when we come to the actual reports in August that will start the process for 1987, CBO and OMB will be averaging their numbers since OMB could well come up with different numbers from CBO.

Mr. DICKS. But based on your numbers at this point, your sequestration order is not affected in any way, shape or form, by the Pentagon's understating the outlays?

Mr. BLUM. No, not at all.

Mr. DICKS. So, in a sense, we are relying on you as our impartial experts in making this judgment for this year. Then the fact that they have done this is—you know, budget smoke and mirrors—but it really does not have an effect on the deficit as you see it at this point?

Mr. BLUM. Not for the purposes of the 1987 illustrative calculation that we did for a sequestration, and assuming no appropriation action for 1987.

However, if you were to appropriate the President's request for 1987, for example——

Mr. DICKS. Then you would expect outlays to be a lot higher.

Mr. BLUM. We would project outlays a lot higher.

Mr. DICKS. They claim that they can control outlays somewhat. In other words, they can, in a sense, reduce the outlay rate by administrative action. How effective could that be, in your view?

Mr. BLUM. Well, I think we both can respond to that question, but my view is that estimating outlays for the defense programs does involve a lot of uncertainty. I mean, it is not a cut-and-dried procedure.

Mr. DICKS. In the past, they may have let this automatically occur. If they were embarrassed by these disclosures, and they wanted to slow the rate of actual expenditure, they could do that, could they not, by the timing of payments on contracts, things of that nature?

Mr. BLUM. My experience is that the Pentagon, or, for that matter, any agency of the government, has some control over what it obligates, what it writes contracts for, and the like.

It does not have complete control over the outlays, or the checks that are issued for work that is done, or goods that are delivered.

So you have to control outlays through an indirect means, which clearly the Pentagon or any other agency can do.

But then you have to estimate what effect that will have on the outlays in that particular year, or in any other year, and we are still in the estimating process.

We typically have estimating differences with the Pentagon, with OMB, on the order of magnitude of three to four, to maybe even $5 billion in a year.

That is not unusual with outlay estimates. What is unusual is to have differences in the ten to $15 billion range. That normally does not happen.

But I do not think that the Pentagon has complete control over their outlays. They do have control over how their authority is obligated, when contracts are written, and the like. But it is such a decentralized process, that it is hard to imagine any one place, any single focal point in the Pentagon, that could control the whole process.

Mr. CHAPPELL. Would the gentleman yield for one moment.

Mr. DICKS. Yes, of course.

THE PRESIDENT'S FY 87 BUDGET

Mr. CHAPPELL. Mr. Blum, if you were asked by the Congress for an opinion as to the President's Budget—if it was enacted just as submitted, would it conform to the requirements of Gramm-Rudman-Hollings, and therefore not trigger sequestration?

Mr. BLUM. Next week we will be completing our analysis of the President's Budget. This will be presented next Wednesday, I believe, before the Senate Appropriations Committee. At that time we will offer complete reestimates of the President's budget, taking all of the policies that are proposed in that budget and applying our own estimates as to what budget effects they will have.

In the case of the defense programs, we will state that the outlays are underestimated to the tune of $14 billion to $15 billion.

So assuming that there are no offsetting reestimates that would bring it back down to the President's level, it is quite likely that we will estimate the deficit under the President's policies as being significantly higher than the $144 billion maximum amount under the Gramm-Rudman-Hollings Act.

Mr. CHAPPELL. In other words, instead of about a 27, 28 percent expenditure on defense, you are saying it is higher, and therefore, something else has to be offset in the cutting of the pie?

Mr. BLUM. If the President's Budget were to be enacted intact.

Mr. CHAPPELL. I notice that his budget essentially is, by percentage, just exactly what we are passing for 1986, within a percentage point. So if you cut the pie, for example, 27-28 percent defense, 10 percent for cost of government, 15 percent for interest, 48 percent, 46 percent—whatever it is—for domestic programs, and so forth, that is essentially the same division we had last year.

So if he is in error in the monies that he has calculated, by percentages, then it would have to be a lesser expenditure somewhere else, is what you are saying, right?

Mr. BLUM. Well, what I am saying is, if the President's Budget were enacted intact, say, between now and August 15, when we take our first snapshot, then on the basis of the work we have done to date, we would be unlikely to say that the deficit amount resulting from that action would be $144 billion.

It would probably be greater than that, and probably greater than the $10 billion threshold that would set off a sequestration process.

Mr. DICKS. So basically, what you are saying is, the President's Budget, as submitted, did not comply with Gramm-Rudman-Hollings, in your view, because of the difference in outlays in defense?

Mr. BLUM. That is correct.

Mr. DICKS. By about $15 billion?

Mr. BLUM. Well, that is on defense alone, I do not know where we will be on the nondefense side. I think there will be some downs as well as ups.

Mr. DICKS. Some offsets.

Mr. BLUM. Some offsets, right.

Mr. DICKS. Thank you. I have no further questions.

Mr. CHAPPELL. Mr. Livingston.

FLEXIBILITY IN SEQUESTRATION CUTS

Mr. **Livingston**. As I understand it, if the President wants to reduce individual items within a section—I have forgotten how you categorize it—he cannot do that. But if Congress wants to reduce individual programs, we can do so. Is that correct?

Mr. **Blum**. Absolutely. The Congress has complete flexibility in putting together a budget plan, or in fact any alternative to the sequestration.

Mr. **Livingston**. And they can also strike programs without——

Mr. **Blum**. Absolutely.

Mr. **Livingston**. But the President is very limited in what he can do?

Mr. **Blum**. Under the sequestration process, the President, by design, by the Act, is given no flexibility.

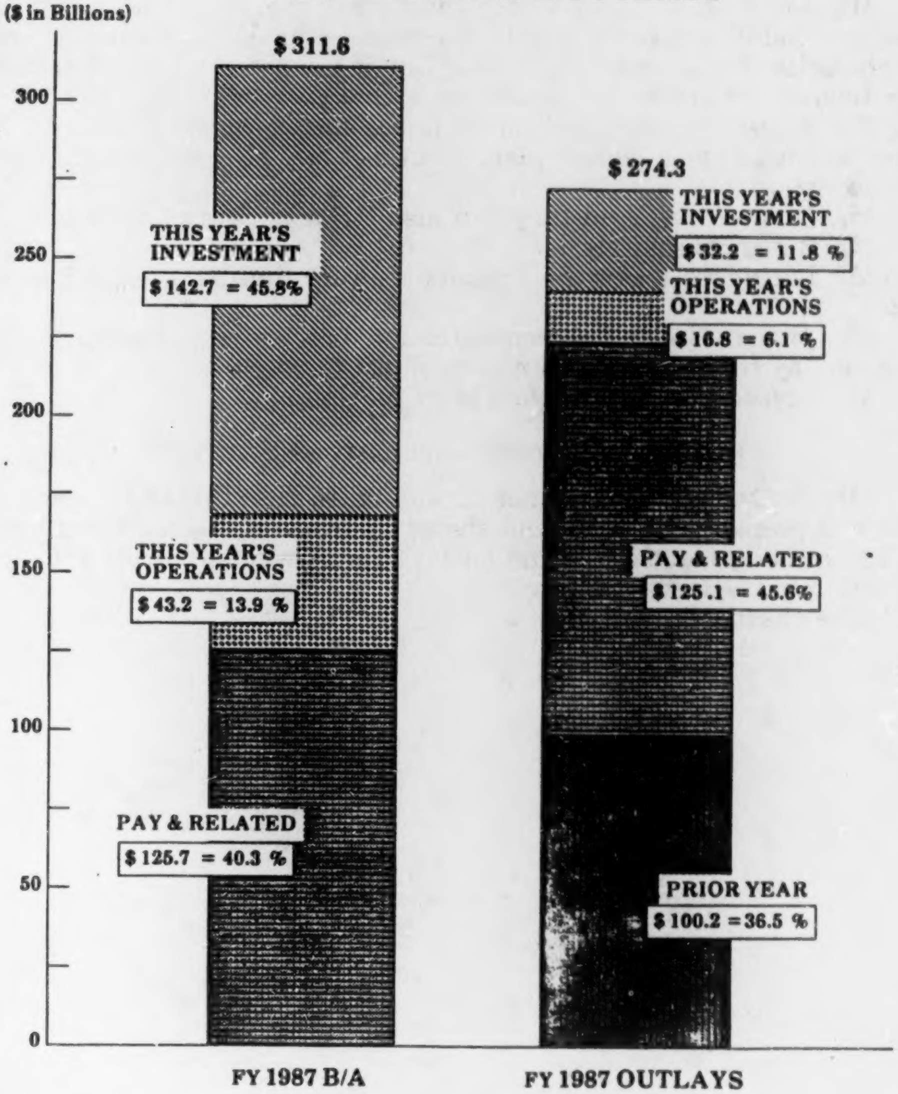
Mr. **Livingston**. Thank you, Mr. Chairman.

FY 1987 DOD BUDGET AUTHORITY AND OUTLAYS

Mr. **McDade**. Mr. Chairman, I wanted to pass this chart around. It was prepared by DOD and shows their estimates for fiscal year 1987 in budget authority and outlays, and I want to direct your attention to the outlay column.

[The chart follows:]

FY 1987 DoD B/A & OUTLAYS



Mr. McDade. This chart shows me the picture that all of the budget authority related to outlays would have to come out of this year's investment, which is 11.8 percent and from this year's operations, which is 6.1 percent. Will you give me some guidance on that statement?

The "pay and related," they could cut there, but I do not know that we are going to do that. Assuming we do not touch "pay and related," is it accurate that the items up top represent the only place you can get that budget?

Mr. Blum. That they represent the——

Mr. McDade. The only place where you can get those outlays?

Mr. Blum. Essentially, yes.

Mr. Havens. But I would observe, sir, that the "pay and related" clearly includes more than just pay.

Mr. Blum. Yes, it must.

Mr. Havens. The $125 billion is more than just pay.

Mr. Blum. Well, I think it has civilian agency, civilian employee pay, but even more than that, apparently.

Mr. McDade. Probably retirement.

Mr. Blum. Oh, yes.

Mr. McDade. The reason I want to get into it is because if you look at that chart, and think of it in terms of the outlays we have to get, if it is $15 billion, it looks like it would have to come out of the $32 billion for investment and the $16 billion for operations. Would you generally agree with that?

Mr. Blum. I think that is probably what you would be focused on. There may be some in the "pay and related" as well, though I think that, from past experience——

Mr. McDade. Could I ask you this, please. If you would amplify for the record, your statement, to show that there may be some areas, either in "prior year", or "pay and related", and an estimate as to what kind of available outlays there are there.

Mr. Blum. Well, we can attempt to do something.

Mr. McDade. Would you do that for us. Thank you very much.

[The information follows:]

The following table shows the composition of budget authority and outlays for the Department of Defense's 1987 request. The major appropriation categories are grouped to give subtotals for investment, operations, pay, and prior year appropriations. Any grouping like this is arbitrary, for example, family housing may be considered to be related to military pay more than operations; also, spare parts funding in procurement may be considered to be operations and not investment.

COMPOSITION OF BUDGET AUTHORITY AND OUTLAYS FOR THE DEPARTMENT OF DEFENSE'S 1987 REQUEST

[In billions of dollars and percent]

Category	Budget authority	Related outlays	percent of total	
			Budget authority	Outlays
Investment:				
Procurement	95.0	13.9	30.8	4.8
RDT&E	41.9	21.4	13.5	7.4
Military construction	6.7	.9	2.2	.3
Revolving Funds	1.2	.9	.4	.3

COMPOSITION OF BUDGET AUTHORITY AND OUTLAYS FOR THE DEPARTMENT OF DEFENSE'S 1987 REQUEST—Continued

[In billions of dollars and percent]

Category	Budget authority	Related outlays	percent of total	
			Budget authority	Outlays
Subtotal	145.7	37.1	46.8	12.9
Operations:				
Operations and Maintenance	55.6	37.3	17.9	12.9
Family housing	3.4	1.7	1.1	.6
Other	−.8	−.8	−.3	−.3
Subtotal	58.2	38.2	18.7	13.2
Pay:				
Military personnel	76.8	74.5	24.7	25.8
Civilian personnel	30.7	29.8	9.9	10.3
Subtotal	107.6	104.3	34.5	36.1
Prior Years		109.1		37.8
Department of Defense	311.5	288.7	100.0	100.0

FLEXIBILITY UNDER SEQUESTRATION

Mr. CHAPPELL. Let me see if I can phrase a question here on flexibility. I know that you kind of throw it back to the Congress as to what flexibility there ought to be.

But let me ask you, if there were to be more flexibility for the future, would we, in your opinion, be better off to give more flexibility, up front, to the President in his discretion to handle programs, projects and activities, or, could it be handled by an across-the-board cut, and then reprogramming?

What would be—would you compare those two, please, for us.

Mr. HAVENS. Well, from my perspective, the reprogramming option has the advantage—assuming that we are talking about above threshold and reportable reprogrammings—of at least assuring that the Congress is informed where the shifts are being made, and has an opportunity to voice its opinion, or to overturn it under some circumstances, so that this, from the Congress's standpoint—I mean, the reprogramming approach is probably superior to the advance discretion, which, once written into the President's Order is just sort of there.

Now, there is clearly some point beyond which the current reprogramming thresholds and limits would not really deal with the problem from the DOD standpoint, so I think, you know, there may be some limits as to——

Mr. CHAPPELL. In other words, you would have enough room——

Mr. HAVENS. Well, that would depend on how much sequestration was required in a particular case, how it ended up affecting individual programs, how much reprogramming was necessary to deal with the problems in individual programs.

At some point it is probably sufficient. Beyond that point maybe it is not and, at that point you are either stuck with the inflexibility or, there is nothing that prevents the Congress coming back after the fact and passing new legislation which reallocates the cuts.

Mr. **Chappell.** Well, I was going to come to that. How does supplemental appropriations enter the picture here with reference to Gramm-Rudman-Hollings?

Mr. **Havens.** My recollection is that the procedural rules of the Congress would make it difficult to pass supplementals, barring a new point of order, without offsetting cuts somewhere else.

So you could probably do a reallocation through a supplemental route, where you would transfer authority from one program to another, but I think there would be some procedural hurdles that you would have to overcome to pass supplementals that simply added money back in.

Mr. **Chappell.** Mr. Blum, do you have any comment on——

Mr. **Blum.** No. I think Mr. Havens covered it well.

ELIMINATION OF PROGRAMS, PROJECTS, OR ACTIVITIES

Mr. **Chappell.** Let me ask a question about the elimination of a program, project, or activity. Section 252(d) of the Gramm-Rudman-Hollings Act provides that, quote, "No action taken by the President under subsection (a) or (b) of this section—which is the Initial and Final Sequestration Orders—shall have the effect of eliminating any program, project, or activity of the Federal Government." End quote.

I wonder if you would describe the conditions that would exist when you would make the determination that a PPA could in effect be eliminated through operation of the uniform sequestration reduction.

Mr. **Blum.** Well, I do not know. My initial reaction is, I think it would be quite difficult to know at what point a particular program, project, or activity is no longer viable, or is in effect eliminated.

Clearly, a 4.9 sequestration should not do it, but I do not know what it would mean if the amount being cut back was 25 percent or 50 percent.

One could establish, I suppose, different criteria. For instance, the point at which it is no longer efficient to continue a particular program.

Mr. **Chappell.** In other words, the words "have the effect of eliminating" is the squishy part of it, right?

Mr. **Blum.** I think that is right, but in effect, what that section does is to limit the President's discretion so that he cannot carry out sequestration by eliminating an entire program such as a weapons program, for example, even though that might in fact be desirable as a way of setting priorities. The Act does not give him that kind of flexibility, and CBO or OMB, under the provisions of the Act, cannot make any judgments.

I mean we simply perform a ministerial function doing these arithmetic calculations, and cannot make a judgment of that type.

Mr. **Chappell.** In other words, if you had a program, let us say—well, take a big one like a carrier, and you had to cut back 10 percent, budget authority on that, would that be the kind of project that could be determined, if you do not have the full amount you are not going to have the full carrier, so if you are not going to have the thing operative you cannot put the thing in the water. Are we talking about that kind of a situation?

Mr. **Havens**. I suppose in theory.

Mr. **Chappell**. That certainly eliminates it.

Mr. **Havens**. Well, except, of course, that nothing would prevent the Congress from coming back the following year, and funding whatever the shortfall was. So that we could not——

Mr. **Chappell**. Does this anticipate that, do you think?

Mr. **Havens**. I do not think this either anticipates it, or anticipates that it will not happen. This is a year by year process, Mr. Chairman, and nothing that happens in one year necessarily forecloses something from happening in the following year.

My personal estimate is that these words are really a carryover from an earlier version of the bill. That at the point where the requirement was added that the cuts be applied uniformly across programs, projects, and activities, i.e., the equal percentage reduction, I think it is at least arguable that these words became redundant. They remained there because of the way the bill was put together, and the process that was being followed.

It seems to me that once you require the programs, projects and activities to be reduced by uniform percentage amounts, the prohibition on eliminating projects, programs and activities is, in a sense, at least redundant.

RETIREMENT COST-OF-LIVING REDUCTIONS

Mr. **Chappell**. Let me ask one final question. Reductions for retirement cost of living increases are made across-the-board for the government. Half of the total reduction is then credited to the required defense reduction amount prior to the sequestration calculation for the Defense Department.

How closely does this split reflect the actual numbers? Are defense retirement COLA's about half the total for the Federal government?

Mr. **Havens**. I think Mr. Blum has the numbers for 1986 in front of him.

Mr. **Blum**. Well, if you turn to page 11 of this brief document, Table 6 on page 11—and it carries over to page 12—shows what the amounts are for all of the different programs that had automatic spending increases, and the extent to which these were eliminated by, or would be eliminated by, the 1986 sequestration.

There you see, for example, that the Military Retirement Fund contributed $409 million. That was the estimated value of the Cost-Of-Living Adjustment for that account. Now $409 million is less than half of the $994 million total for all of the values of the Cost-Of-Living Adjustments for the retirement and disability programs subject to this kind of sequestration.

On the other hand, the other big number here is for the Civil Service Retirement Disability Fund, where $535 million is being saved by eliminating the COLA for 1986. Clearly, some portion of those civilian employees presumably worked in defense programs. I do not have their precise number, but we could say roughly a third of the total civilian employee compensation, including the Postal

Service, which also get retirement benefits—a third of that represents civilian employees in defense functions.

So if we took a third of that 535, for example, you could get $176 million. If you attribute that to Function 050 for National Defense, then you get a number as high as, say, $585 million, or 59 percent of the total.

So it depends on what you consider belongs to the defense function. It could be as low as 41 percent, if you count only the military retirees, or as high as 59 percent if you include the defense civilian employees.

So splitting that difference gives us 50 percent, which is what is credited to the Defense Department for these sequestration calculations.

Mr. CHAPPELL. Gentlemen, thank you very much. You have been very, very helpful, and very informative. I wish we just understood everything you have told us here this morning.

SPLIT OF SEQUESTRATION CUTS

Mr. McDADE. Could I just make one more point. There is a lot of conversation about the 50/50 split not really being a 50/50 split insofar as it relates to the Defense Department. Some people say that because a great deal of this year's BA is out-year money in outlays, and once you take out the personnel accounts, you get a different spendout ratio in the DOD than you do in other accounts.

Is it fair to say that it is not really a 50/50 split? You know, I am looking at out-year outlays——

Mr. BLUM. Well, that is difficult to think about in some respects. It is clear that the defense savings, because they have this long tail, will also accrue in years after 1986. We will get savings in 1987 and 1988 and 1989.

At the same time, however, eliminating the 1986 Cost-Of-Living Adjustments, will produce savings in the out-years as well. I mean, once it is gone, it is gone for all of the time that that benefit population is still on the rolls.

Some of the nondefense programs also have tails, in the sense of spending over——

Mr. McDADE. Like what?

Mr. BLUM. Well, for example, highway construction grants do not all spend quickly; Corps of Engineer water projects, et cetera, are also slow spending. There are other types of construction or R&D type activities in nondefense programs that also do not spend out in the first year.

Another way of thinking about it, I guess, is the way we do it for our baseline projections, in the sense of removing this from the base and seeing how that affects our baseline projections in the out-years.

As we look at those, all the way out to 1991, just in this baseline projection, we would say that the 1986 sequestration for National Defense would reduce that outlay projection out in 1991 somewhere between $12 billion and $13 billion.

The total for all of the sequestration for nondefense, I guess, would add another $9 billion, but then we also get debt service savings, because we have lower interest payments, which would add another $8 billion.

So the total savings, all the way out to 1991, in our baseline projections, are worth $30 billion. So there are lots of different ways of looking at it.

Mr. McDade. Yes. I was looking at fiscal year 1987.

Mr. Blum. Well, in terms of 1987 alone, it is clear that we have sequestered more budget authority than $11.7 billion—in the case of defense, almost three times the outlay savings, and probably a little less in the nondefense areas.

But we would come out, in 1987, looking at that very narrowly, with a savings of about $7.5 billion, of which defense programs would contribute about three and a half billion.

Mr. McDade. Thank you.

Mr. Chappell. Gentlemen, thank you very, very much.

[Clerk's note.—The reports referred to on page 2 follow:]

SEQUESTRATION REPORT FOR FISCAL YEAR 1986: A SUMMARY

January 15, 1986

CONGRESSIONAL BUDGET OFFICE

CONGRESS OF THE UNITED STATES

Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177

OFFICE OF MANAGEMENT AND BUDGET

EXECUTIVE OFFICE OF THE PRESIDENT

A Joint Report to the
Comptroller General of the United States

SEQUESTRATION REPORT FOR FISCAL YEAR 1986: A SUMMARY

January 15, 1986

Congressional Budget Office
Congress of the United States

Office of Management and Budget
Executive Office of the President

Congressional Budget Office
Congress of the United States

Office of Management and Budget
Executive Office of the President

January 15, 1986

Honorable Charles A. Bowsher
Comptroller General of the United States

Dear Mr. Comptroller General:

In accordance with the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985, Public Law 99-177, the Director of the Office of Management and Budget (OMB) and the Director of the Congressional Budget Office (CBO) do hereby submit to you, as the Comptroller General of the United States, the Sequestration Report for Fiscal Year 1986.

As required by law, this joint report:

- Estimates budget base levels, including the amount by which the projected deficit exceeds the maximum deficit amount for the fiscal year;
- Provides OMB and CBO economic assumptions, including the estimated rate of real economic growth; and
- Calculates the amounts and percentages by which various budgetary resources must be sequestered in order to eliminate any deficit excess.

The report is in three parts: a summary and two appendixes that provide a detailed listing of all sequestration reductions by agency and budget account, and by programs, projects, and activities for defense programs. The Directors of OMB and CBO were able to agree on the conceptual application of P.L. 99-177 to all budget accounts except one. This difference is discussed in the summary section.

Sincerely yours,

Rudolph G. Penner

Rudolph G. Penner
Director
Congressional Budget Office

James C. Miller III
Director
Office of Management and Budget

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INTRODUCTION

The Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) stipulates that budget deficits must be decreased annually and specifies measures that must be taken to achieve this result. The maximum deficit amounts specified by the Act are:

Fiscal Year	Maximum Deficit (in billions of dollars)
1986	171.9
1987	144.0
1988	108.0
1989	72.0
1990	36.0
1991	zero

If the deficit is estimated to exceed the maximum level by any amount in 1986 and 1991, or by more than $10 billion in 1987-1990, an automatic spending reduction procedure is triggered to eliminate the excess deficit through the sequestration of budgetary resources. Except for trust and special funds, this involves the permanent cancellation of new budget authority and other authority to obligate and expend funds. For 1986, the outlay reduction is limited by the Act to a maximum of $11.7 billion, regardless of the amount of the excess deficit. In later years, the amount of possible outlay reductions is not limited.

The first step in the sequestration process is a joint report by the Director of the Office of Management and Budget (OMB) and the Director of the Congressional Budget Office (CBO) to the Comptroller General that:

- Estimates budget base levels, including the amount by which the projected deficit exceeds the maximum deficit amount for the fiscal year covered by the report;

- Provides OMB and CBO economic assumptions, including the estimated rate of real economic growth; and

- Calculates the amounts and percentages by which various budgetary resources must be sequestered in order to eliminate any deficit excess.

For fiscal year 1986, the joint OMB/CBO report to the Comptroller General is to be made on January 15, 1986. For subsequent years, the Directors will make an initial report on August 20 and a revised report on October 5 to reflect final Congressional action on the budget during the month of September.

The Comptroller General will review the Directors' reports and issue his own reports to the President and the Congress that confirm or modify the information reported by OMB and CBO. The Comptroller General's reports will become the basis for reductions in budgetary resources to be ordered by the President. In 1986, the Comptroller General's report to the President will be made on January 21, 1986. In subsequent years, his initial report will be made on August 25 and his revised report on October 10.

The Presidential order to sequester funds specified by the Comptroller General will be issued on February 1 for 1986 and on September 1 for subsequent years. Unless the Congress acts--and the President agrees--to modify the sequestration results by adopting an alternative deficit reduction plan, the 1986 reductions will take effect March 1, 1986 and the 1987-1991 reductions on October 1. Any Congressional action taken during September to reduce excess deficits for 1987-1991 will be reflected in a final Presidential order to be issued on October 15.

BUDGET BASE LEVELS

This report is concerned only with fiscal year 1986. The OMB and CBO estimates of total revenues, outlays, and the deficit for 1986 are shown in Table 1. These estimates are made in accordance with the specifications set forth in the Act. They assume that current law for revenues and entitlements will continue unchanged, and that expiring provisions will terminate as scheduled, such as the extension of the 8 cent cigarette excise tax increase and

TABLE 1. BUDGET BASE LEVELS FOR 1986
(In billions of dollars)

Budget Aggregates	OMB Estimates	CBO Estimates	Average
Revenues	774.9	777.2	776.0
Outlays	994.9	998.0	996.5
Deficit	220.1	220.9	220.5

SOURCES: Congressional Budget Office and Office of Management and Budget.

the temporary reduction in federal employees' retirement fund contributions. 1/ For spending accounts that require appropriations, the OMB and CBO estimates are based on the appropriations enacted for fiscal year 1986, including the continuing resolution that covers the full fiscal year. As required by the Act, the budget estimates include the receipts and disbursements of the social security trust funds as well as those of various federal entities that formerly were off-budget.

OMB's deficit estimate for 1986 is $220.1 billion, and CBO's deficit estimate is $220.9 billion. An average of the two deficit estimates is $220.5 billion, which exceeds the maximum deficit amount of $171.9 billion by $48.6 billion. For fiscal years 1987 through 1991, the amount of deficit reduction to be achieved through the sequestration of budgetary resources would be determined by subtracting the maximum deficit amount specified by the Act from the average of the OMB and CBO deficit estimates. For 1986 only, however, the deficit reduction is not to exceed $11.7 billion. 2/

ECONOMIC ASSUMPTIONS

The principal economic assumptions underlying the OMB and CBO budget base level estimates for fiscal year 1986 are shown in Table 2.

The Act requires the OMB and CBO Directors to estimate the rate of real economic growth for the fiscal year covered by their report, for each quarter of the fiscal year, and for the last two quarters of the preceding fiscal year. The estimates for the rate of real economic growth for fiscal year 1986 are included in Table 2 and the quarterly estimates are shown in Table 3.

SEQUESTERABLE RESOURCES

The required reductions in outlays are not made directly; rather, they are to be achieved by the permanent cancellation of budget authority and other authority to obligate and expend funds--referred to under P.L. 99-177 as

---

1. The Act permits an exception to the expiring-provision assumption for excise taxes dedicated to a trust fund and for Commodity Credit Corporation price support programs. In these cases, the budget base levels are to assume extension through the fiscal year at current rates. For example, superfund excise taxes, which expired September 30, 1985, are assumed to have been extended for the 1986 revenue estimates.

2. The Act limits the deficit reduction amount for 1986 to $20 billion at an annual rate. Since the sequestration of funds will not take effect until March 1, or five months after the fiscal year began, the Act prorated the maximum deficit reduction to seven-twelfths of $20 billion, or $11.7 billion.

sequestration. For defense programs, sequesterable budgetary resources are new budget authority provided for 1986 and unobligated balances of budget authority provided in previous years. For nondefense programs, the sequesterable budgetary resources are new budget authority, new direct loan obligations, new loan guarantee commitments, obligation limitations, and spending authority as defined in section 401(c)(2) of the Congressional Budget Act of 1974 (spending authority not subject to the annual control of the appropriations process). Included in this definition of spending authority are federal payments financed by offsetting collections that are credited to budget accounts as well as various permanent appropriations.

Not all budgetary resources are subject to sequestration. The Act exempts a number of programs and activities of the federal government from the sequestration process, including social security benefits, veterans' compensation and pensions, regular state unemployment insurance benefits, net interest, medicaid, aid to families with dependent children, food stamps, supplemental security income, child nutrition, and the women, infants, and children program.

TABLE 2. ECONOMIC ASSUMPTIONS (Fiscal Year 1986)

Economic Variable	OMB	CBO
Gross National Product:		
Current dollars (in billions of dollars)	4,209	4,192
Percent change, year over year	6.9	6.5
Constant (1982) dollars (in billions of dollars)	3,675	3,658
Percent change, year over year	3.5	3.0
GNP Implicit Price Deflator (percent change, year over year)	3.3	3.4
CPI-W (percent change, year over year)	3.3	3.3
Civilian Unemployment Rate (percent, fiscal year average)	6.9	6.9
Interest Rates (fiscal year average)		
91-day Treasury bills	7.3	6.9
10-year Treasury notes	9.2	9.2

SOURCES: Congressional Budget Office and Office of Management and Budget.

Also exempt from sequestration are prior legal obligations of the government in certain specified budget accounts, as well as the program bases for programs with automatic spending increases resulting from changes in price indexes (mostly retirement and disability programs). Federal administrative expenses for otherwise exempt programs and activities, however, are sequesterable, including programs that are self-supporting.

For 1986 only, the Act gives the President the authority to exempt all or part of the military personnel accounts from sequestration. The President has decided to use this authority and has exempted $63.1 billion, or 93 percent, of the 1986 appropriations for these accounts. Outlays from obligated balances for defense programs, as well as from prior-year appropriations for nondefense programs, are generally not subject to sequestration. Although defense contracts can be modified or terminated to achieve outlay savings, the President has chosen not to do so for fiscal year 1986.

Certain programs and activities, while not exempt, are subject to special rules that have the effect of limiting the amount of the spending reduction. For example, the sequestration of budgetary resources for medicare, veterans' medical care, and certain health programs is limited to 1 percent in 1986 and 2 percent annually in 1987 through 1991. On the other hand, the total amount of the automatic spending increases (primarily cost-of-living adjustments) are sequesterable.

For credit programs, the governing measures of sequesterable budgetary resources are direct loan obligations and loan guarantee commitments. The Act requires de facto limitations on both types of new credit activity.

TABLE 3. REAL ECONOMIC GROWTH RATES BY QUARTER
(In percents, annual rates)

	FY 1985 Actual a/		FY 1986 Estimates			
	Apr-Jun 1985	Jul-Sep 1985	Oct-Dec 1985	Jan-Mar 1986	Apr-Jun 1986	Jul-Sep 1986
OMB	1.1	3.0	4.2	4.0	4.0	4.0
CBO	1.1	3.0	3.2a/	3.5	3.3	3.4

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. As reported by the Department of Commerce (December 20, 1985).

Table 4 provides further detail on the OMB and CBO base level outlay estimates for 1986. About $110 billion of estimated 1986 outlays for defense programs, or 40 percent of total defense spending, are associated with budgetary resources subject to an across-the-board percentage reduction. The special 1986 exemption for military personnel accounts made by the President removed more than $60 billion in outlays from the sequesterable portion.

About $240 billion, or one-third of estimated outlays for nondefense programs, is associated with sequesterable budgetary resources. Nearly $50 billion in outlays are for programs with automatic spending increases, primarily federal employee retirement and disability programs. For these programs, the amount of spending reduction required by the Act is limited to the cost-of-living adjustments, which are generally 3.1 percent for 1986. Another $87 billion in outlays are associated with certain special rule programs, of which the largest is medicare. The Act also limits the extent of spending reductions for these programs. Only slightly more than $100 billion in estimated 1986 nondefense outlays--about 15 percent--are associated with budgetary resources subject to an across-the-board percentage reduction. Over $380 billion, or more than one-half of total estimated outlays for nondefense programs, are exempt from sequestration by the Act. As shown by Table 4, the major exempt program outlays are mostly for social security and net interest. The remaining portion of nondefense outlays, about $100 billion, results from budgetary resources provided in previous years or from prior legal obligations.

SEQUESTRATION CALCULATIONS

The Balanced Budget and Emergency Deficit Control Act establishes the following steps for the sequestration calculations. First, the deficit excess is calculated by subtracting the maximum amount from the estimated deficit in the budget base. One-half is assigned to defense programs (budget accounts in function 050) and the other half to nondefense programs.

Second, the total amount of outlay savings from eliminating automatic spending increases is calculated. Provided that the resulting savings are not more than one-half of the total required reduction, the automatic increases are eliminated. One-half of the resulting savings for indexed retirement and disability programs are applied toward the required reduction amount for defense programs and the other half to nondefense programs. All savings from eliminating automatic spending increases in three other specific programs--the National Wool Act, the special milk program, and vocational rehabilitation--are applied to the required reduction in outlays for nondefense programs.

TABLE 4. BASE LEVEL OUTLAY ESTIMATES FOR 1986
(In billions of dollars)

Category	OMB Estimates	CBO Estimates	Average
Defense Programs a/			
Subject to across-the-board reduction	106.2	112.4	109.3
Other b/	164.7	162.1	163.4
Subtotal, defense programs	270.9	274.6	272.8
Nondefense Programs			
Programs with automatic spending increases c/	48.9	48.4	48.6
Certain special rule programs d/	87.0	87.1	87.1
Subject to across-the-board reduction	104.3	106.1	105.2
Major exempt programs			
Social security and railroad retirement tier 1	202.6	202.0	202.3
Net interest	137.9	136.9	137.4
Earned income tax credit	1.3	1.3	1.3
Low-income programs e/	60.9	61.1	61.0
Veterans compensation and pensions	14.3	14.3	14.3
State unemployment benefits	18.2	18.1	18.2
Offsetting receipts	-50.2	-50.5	-50.4
Other f/	98.8	98.7	98.8
Subtotal, nondefense programs	724.0	723.4	723.7
Total	994.9	998.0	996.5

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. Budget function 050 excluding FEMA programs.

b. Outlays from obligated balances and the portion of military personnel accounts exempted by the President for 1986.

c. Primarily federal employee retirement and disability programs.

d. Guaranteed student loans, foster care and adoption assistance, medicare, veterans medical care, community health, migrant health, and Indian health.

e. AFDC, child nutrition, medicaid, food stamps, SSI, and WIC.

f. Outlays from prior-year appropriations, certain prior legal obligations, and small exempt programs.

Third, the amount of outlay savings to be obtained by applying four special rules is calculated. These special rules are for guaranteed student loans, foster care and adoption assistance, medicare, and certain health programs, and are described in a later section of this report. 3/ The estimated savings from these four special rules are applied toward the required spending reductions in nondefense programs.

The remaining reductions in defense programs and nondefense programs must be taken on a uniform percentage basis, computed separately for each category. The uniform reduction percentages are computed from outlay estimates. The remaining outlay savings to be achieved in defense and nondefense spending are divided by the estimated outlays associated with sequesterable budgetary resources in each category. These uniform percentages are then applied to all of the remaining sequesterable budgetary resources (budget authority, credit authority, and other spending authority) for defense and nondefense programs.

In the event that the Directors of OMB and CBO are unable to agree on any of these calculations, the Act requires that their estimates be averaged to the extent necessary to produce a single, consistent set of data that achieves the required deficit reduction.

Table 5 shows the OMB and CBO calculations and the averaged amounts for each of the steps described above. The total required outlay reduction for 1986 is $11.7 billion, one-half of which--$5,850 million--must be obtained from defense programs and the other half from nondefense programs. An estimated $994 million in outlay savings in 1986 can be achieved by eliminating the automatic spending increases scheduled for civil service, military, and other federal retirement and disability programs. Another $45 million in savings can be obtained by eliminating the automatic spending increases for vocational rehabilitation grants and the National Wool Act (the special milk program is also an indexed program but in 1986 the change in the price index is projected to be negative). The outlay savings for programs where the spending reductions are limited by special rules (guaranteed student loans, medicare, and so forth) are estimated to be $397 million.

---

3. There are a number of special rules for other programs, such as the Commodity Credit Corporation, but they do not enter into the sequester calculations at this step.

TABLE 5. SEQUESTRATION CALCULATIONS FOR 1986
(Outlays in millions of dollars)

Category	OMB	CBO	Average
Defense Programs:			
Total required reductions	5,850	5,850	5,850
Estimated savings from automatic spending increases:			
Indexed retirement programs a/	496	497	497
Amount remaining to be obtained from uniform percentage reductions of budget resources	5,354	5,353	5,353
Estimated outlays associated with sequesterable budget resources	106,225	112,446	109,335
Uniform reduction percentage	5.0	4.8	4.9
Nondefense Programs:			
Total required reductions	5,850	5,850	5,850
Estimated savings from automatic spending increases:			
Indexed retirement programs	496	497	497
Other indexed programs	45	45	45
Estimated savings from the application of special rules:			
Guaranteed student loans	10	10	10
Foster care and adoption assistance	5	5	5
Medicare	300	300	300
Other health programs	82	83	82
Amount remaining to be obtained from uniform percentage reductions of budget resources	4,912	4,911	4,912
Estimated outlays associated with sequesterable budget resources b/	114,444	115,080	114,762
Uniform reduction percentage	4.3	4.3	4.3

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. These retirement programs are not included in the national defense function of the budget; most are included in the income security function.

b. Includes estimated 1987 outlays for the Commodity Credit Corporation (CCC) that can be affected by a 1986 sequester (see discussion of special rule for the CCC). The OMB estimate is $10,095 million, the CBO estimate is $8,940 million, and the average is $9,518 million.

After crediting one-half of the retirement cost-of-living adjustment (COLA) savings to defense programs, the remaining outlay reductions of $5,353 million in 1986 must be obtained by reducing new budget authority and unobligated balances by a uniform percentage. Since the bulk of the military personnel accounts have been exempted by the President from sequestration, 1986 outlays associated with sequesterable budgetary resources for defense programs are estimated to be only $106.2 billion by OMB and $112.4 billion by CBO. The average of these amounts is $109.3 billion. Thus, the uniform percentage to be applied to sequesterable defense budgetary resources is 4.9 percent. The uniform percentage to be applied to nondefense programs, after deducting the savings from one-half of the retirement COLAs and the special rule calculations, is 4.3 percent.

The OMB/CBO calculations generally assume that all nonexempt budgetary resources can be sequestered so as to produce outlay savings, including entitlement programs and other mandatory spending programs where the spending authority is not controlled through the annual appropriation process. In a few instances where the uniform percentage reduction of budgetary resources would not produce any outlay savings (for example, for credit programs where new direct loan limits are higher than expected program levels), no outlays were included in the sequester base used for calculating the reduction percentages.

AUTOMATIC SPENDING INCREASES

The programs with automatic spending increases subject to sequestration by the Balanced Budget and Emergency Deficit Control Act are listed in Table 6. The scheduled percentage increases are shown as well as the amount of estimated outlay savings to be gained by eliminating these increases. The independent OMB and CBO estimates for the amounts to be reduced by sequestration are very similar. Table 6 shows the average of these estimates for each program.

SPECIAL RULES

The Balanced Budget and Emergency Deficit Control Act provides special rules for the sequestration of budgetary resources for certain federal programs. This section describes these special rules and their application to the 1986 sequestration calculations. The estimated outlay savings derived from the first four rules are shown separately in Table 5. Any outlay savings resulting from the remaining special rules are included in the amount to be obtained from the uniform percentage reductions.

Guaranteed Student Loan Program

The Act requires two changes in the guaranteed student loan (GSL) program to occur automatically under sequestration. First, the statutory factor for calculating the special allowance for lenders will be reduced by 0.40 percentage points in the first year of the loan. Second, a student's origination fee will increase by 0.50 percentage points. In both cases, sequestration affects only GSL loans made during the applicable fiscal year, but after the order is issued. For 1986, these changes are estimated to reduce budget authority by $34.1 million and outlays by $9.6 million.

TABLE 6. AUTOMATIC SPENDING INCREASES FOR 1986 SUBJECT TO SEQUESTRATION (Outlays in millions of dollars)

Program	Scheduled Increase (percent)	Sequestration Reductions	
		Outlays	Percent
Part A, Retirement and Disability Programs			
Black lung benefits a/	---	---	---
CIA retirement and disability system fund	3.1	b/	100
Civil service retirement and disability fund	3.1	534.5	100
Comptrollers general retirement system	3.1	c/	100
Foreign service retirement and disability fund	3.1	5.9	100
Judicial survivors' annuities fund a/	---	---	---
Longshoremen's and harbor workers' compensation benefits d/	2.7	---	---
Military retirement fund	3.1	409.1	100
NOAA retirement	3.1	0.2	100
Pensions for former Presidents a/	---	---	---
Railroad Retirement Tier II e/	1.0	18.0	100
Retired pay, Coast Guard	3.1	8.6	100
Retirement pay for commissioned PHS officers	3.1	2.3	100
Special benefits, FECA f/	3.4	15.0	100

(Continued)

Foster Care and Adoption Assistance Programs

The Act limits the amount available for sequester in the foster care and adoption assistance programs to increases in foster care maintenance payment rates or adoption assistance payment rates taking effect during the current fiscal year. Moreover, they are limited to the extent that the reduction can be made by reducing federal matching payments by a uniform percentage across states. The increases in payment rates for these programs are made by the states and localities. Any increases planned by the states in fiscal year 1986, and prorated

TABLE 6. (Continued)

Program	Scheduled Increase (percent)	Sequestration Reductions	
		Outlays	Percent
Special benefits for disabled coal miners a/	---	---	---
Tax Court judges survivors annuity fund a/	---	---	---
Total, Part A		993.5	
Part B, Other Indexed Programs			
National Wool Act g/	4.8	10.3	100
Special milk program h/	-2.6	---	---
Vocational rehabilitation i/	4.2	34.5	100
Total, Part B		44.8	

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. Benefits are indexed to General Schedule, judicial, or Executive Level pay, which did not increase for fiscal year 1986.
b. Classified.
c. Less than $50,000.
d. The automatic spending increase in this program took effect October 1, 1985 before enactment of P.L. 99-177. Benefits were indexed to the change in national average private weekly earnings from October to June 1984 to October to June 1985.
e. Tier II beneficiaries receive 32.5% of the scheduled full year increase in the CPI-W.
f. The scheduled percent increase is the estimated change in the CPI-W from December 1984 to December 1985.
g. Payment increases are based on changes in the wool parity price.
h. Benefits are indexed to the Producer Price Index for Fresh Processed Milk which is estimated to decline during the measuring period for the 1986 COLA (May 1985 to May 1986).
i. Authorization level is indexed to the change in the CPI-U from October 1983 to October 1984.

for the period after March 1, were included in the OMB and CBO calculations for sequestration reductions. The estimated savings in 1986 from sequestration are $6.6 million in budget authority and $5.1 million in outlays.

Medicare

The sequestration reductions in the medicare program are to be achieved by reducing payment amounts for covered services. No changes in co-insurance or deductible obligations are to be made, and covered services are unaffected under a sequestration order. Under such an order, each payment amount would be reduced by a maximum of 1 percent for fiscal year 1986 and 2 percent for each subsequent year in which there is sequestration, relative to whatever level of payment would otherwise be made under medicare law and regulation. The reduction would be proportionately reduced in any year in which the excess deficit is small enough to permit a smaller reduction. Based on the need for the maximum sequestration allowed under the Act in 1986, a reduction of 1 percent will be required for this year. The estimated outlays savings to be achieved in 1986 by applying this special rule is $300 million. In addition, the sequestration of medicare administrative expenses is estimated to save another $74.5 million in outlays.

Veterans' Medical Care and Other Health Programs

The Act limits reductions in budget authority for veterans' medical care, community and migrant health centers, and Indian health services and facilities to 1 percent in fiscal year 1986 and 2 percent in any subsequent fiscal year. The amount of savings to be achieved in 1986 by applying this special rule for the nonadministrative funds in these programs is $97.9 million in budget authority and $82.6 million in estimated outlays. Application of the uniform sequestration reduction percentage to the administrative funds in these programs yields additional savings of $35.6 million in budget authority and $33.4 million in outlays.

Child Support Enforcement Programs

In the child support enforcement (CSE) program, the Act provides that sequestration of entitlement payments to states, including incentive payments from the assistance payments account, is to be accomplished by reducing the federal matching rates for state administrative expenses. For 1986, the federal matching rate on most expenditures will be reduced from 70 percent to 66.65 percent; the rate for computer-related expenditures will be reduced from 90 percent to 85.69 percent. This reflects a reduction in the matching rates by the same 4.3 percent applied to other nondefense programs, adjusted to allow also for the sequestration of spending on incentive payments.

If states increase their share of CSE spending to maintain total program spending at the expected 1986 level, this reduction in the federal matching rate will lower federal outlays by the same percentage as other nondefense programs. If states do not increase their 1986 spending, however, the lower federal matching rate would result in a larger percentage reduction in federal spending than the Act requires. How states will react to the 1986 sequestration is not known, but their reactions will be monitored and taken into account when calculating future sequestration reductions. The amount of savings to be achieved in 1986 by applying this special rule is estimated to be $31.7 million in budget authority and $31.4 million in outlays.

Unemployment Compensation Programs

The Act provides that the following items are not available for sequester: regular state unemployment benefits, the state share of extended unemployment benefits, benefits paid to former federal employees and former members of the armed services, and loans and advances to the state and federal unemployment accounts. The federal share of extended benefits and federally paid benefits and administrative expenses are available for sequester. The Act also provides that states may, without penalty, reduce their share of federal-state extended unemployment benefits if the federal share of benefits is reduced by a sequester order. The Act is silent with respect to unemployment benefits for railroad workers; these benefits, therefore, are presumed to be sequesterable.

The amount of the percentage reduction in payments to the states under section 204 of the Federal-State Extended Unemployment Compensation Act of 1970 for fiscal year 1986, effective March 1, 1986, is 4.3 percent. The estimated amount of outlay savings that will be achieved in 1986 by applying this special rule to the federal share of extended benefits and federally paid benefits and administrative expenses is $74 million. The sequestration of unemployment benefits for railroad workers would save another $7.8 million.

Commodity Credit Corporation

The Act requires that payments and loan eligibility under any contract entered into by the Commodity Credit Corporation (CCC) after a sequester order has been issued for a fiscal year be subject to a percentage reduction. The Act requires that reductions for all farm commodities supported by the CCC be made in a uniform manner, including all noncontract programs, projects, and activities within CCC's jurisdiction. The Act further stipulates that outlay reductions in the post-sequester year that are the result of contract adjustments in the sequester year should be credited to the overall outlay reduction required in the sequester year. The amount of outlay savings to be achieved by applying this special rule is estimated to be $0.4 billion in 1986, and $0.4 billion in 1987. The actual amount of savings realized in each year will depend upon how the sequester is implemented for the various CCC programs. In accordance with the Act, however, all of these estimated outlay savings are credited toward the $11.7 billion spending reduction required for 1986.

Mine Workers Disability Compensation

Increases in disability benefits under the Federal Mine Safety and Health Act are to be treated in the same manner as other automatic spending increases. This Act covers black lung and special benefits for disabled coal miners, which are indexed to changes in federal pay for civilian employees. Since there will be no change in these pay levels in 1986, no savings will result from the application of this special rule.

Federal Pay

The Act provides that rates of pay for civilian employees (and rates of basic pay, basic subsistence allowances, and basic quarter allowances for members of the uniformed services), or any scheduled pay increases, may not be reduced pursuant to a sequestration order. Budgetary resources available for federal pay, however, will be subject to sequestration as part of the reduction of administrative expenses. The amount of savings to be achieved in 1986 from reducing available funds for employee compensation cannot be estimated because program managers are urged not to resort to personnel furloughs until other methods of achieving savings prove insufficient, such as reducing spending for travel, printing, supplies, and other services.

Defense Contracts

Existing contracts in defense programs can be terminated or modified to achieve outlay savings if such action would neither result in a net loss to the government nor violate the legal obligations of the government, and if the President notifies the Comptroller General and the Congress of proposed contract terminations and modifications by specified dates (January 15, 1986 for fiscal year 1986 and not later than September 5 for subsequent years). No defense contract terminations or modifications are proposed for 1986 sequestration reductions.

SEQUESTRATION REDUCTIONS

A summary of the sequestration of budgetary resources and the estimated outlay savings for 1986 is provided for defense programs in Table 7 and for nondefense programs in Table 8. Table 9 provides a summary of the 1986 sequestration reductions by agency. In most instances, additional outlay savings would be gained in 1987 and later fiscal years as a result of the elimination of various 1986 automatic spending increases and the cancellation of 1986 budget authority. The 1987 savings have not been estimated for this report, but will be included in the President's budget for 1987 and the CBO annual report to the Budget Committees in February.

TABLE 7. DEFENSE PROGRAM SEQUESTRATIONS FOR 1986
(In billions of dollars)

Function 050	Spending Authority a/	Estimated Outlays
Department of Defense-Military:		
Military personnel	0.2	0.2
Operation and maintenance	3.9	2.9
Procurement	6.6	0.9
Research, development, test, and evaluation	1.9	0.9
Military construction	0.5	0.1
Family housing and other	0.2	0.1
Subtotal, DoD	13.3	5.1
Atomic energy defense activities	0.4	0.2
Other defense-related activities b/	0.1	c/
Total	13.8	5.4

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. Includes new budget authority for 1986 and unobligated balances from budget authority provided in previous years.

b. Includes the function 050 portion of Federal Emergency Management Agency budget accounts which are reduced at the same rate as nondefense programs.

c. Less than $50 million.

TABLE 8. NONDEFENSE PROGRAM SEQUESTRATIONS FOR 1986
(In billions of dollars)

Function	Spending Authority a/	Direct Loan Obligations	Loan Guarantees	Estimated Outlays
International affairs	0.9	0.3	0.5	0.5
General science, space and technology	0.4	---	---	0.3
Energy	0.3	0.2	0.1	0.1
Natural resources and environment	0.6	b/	---	0.4
Agriculture	0.9	0.7	0.3	1.0 c/
Commerce and housing credit	0.2	0.2	5.7	0.2
Transportation	1.9	b/	b/	0.4
Community and regional development	0.2	0.1	b/	0.1
Education, training, employment, and social services	1.2	b/	---	0.4
Health	0.5	b/	---	0.3
Medicare	0.4	---	---	0.4
Income security	1.8	b/	---	1.3
Social security	0.1	---	---	0.1
Veterans benefits and services	0.2	b/	0.5	0.2
Administration of justice	0.3	---	---	0.3
General government	0.3	---	---	0.3
General purpose fiscal assistance	0.3	---	---	0.2
Total	10.5	1.6	7.3	6.3

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. Includes new budget authority, obligation limitations, and other spending authority for 1986.

b. Less than $50 million.

c. Includes $0.4 billion in estimated 1987 outlay savings for Commodity Credit Corporation (CCC) programs (see discussion of special rule for CCC).

TABLE 9. SEQUESTRATIONS FOR 1986 BY AGENCY
(In billions of dollars)

Department or Other Unit	Spending Authority a/	Direct Loan Obligations	Loan Guarantees	Estimated Outlays
Legislative Branch	0.1	---	---	0.1
The Judiciary	b/	---	---	b/
Executive Office of the President	b/	---	---	b/
Funds appropriated to the President	0.6	0.3	b/	0.3
Agriculture	1.3	1.1	0.5	1.3 c/
Commerce	0.1	b/	b/	0.1
Defense-Military	13.3	---	---	5.1
Defense-Civil	0.6	---	---	0.5
Education	0.7	b/	---	0.2
Energy	0.6	---	---	0.3
Health and Human Services	1.3	b/	---	1.0
Housing and Urban Development	0.7	b/	5.5	b/
Interior	0.3	b/	b/	0.2
Justice	0.2	---	---	0.1
Labor	0.4	---	---	0.2
State	0.1	b/	---	0.1
Transportation	1.8	b/	b/	0.4
Treasury	0.4	---	---	0.4
Environmental Protection Agency	0.1	b/	---	b/
General Services Administration	0.1	---	---	b/
National Aeronautics and Space Administration	0.3	---	---	0.2
Office of Personnel Management	0.6	---	---	0.6
Small Business Administration	b/	0.1	0.2	b/
Veterans Administration	0.2	b/	0.5	0.2
Other independent agencies	0.4	0.1	0.5	0.3
Total	24.3	1.6	7.3	11.7

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. Includes new budget authority for 1986, unobligated balances from budget authority provided in previous years (Defense-Military and other function 050 programs and certain administrative costs), obligation limitations for and other spending authority for 1986.

b. Less than $50 million.

c. Includes $0.4 billion in estimated 1987 outlay savings for Commodity Credit Corporation (CCC) programs (see discussion of special rule for CCC).

A detailed listing of the sequestration reductions by agency and budget account is provided as a separate part to this report. Also included as a separate part is a detailed listing of sequestration reductions of budgetary resources for defense programs, projects, and activities within each budget account.

CONCEPTUAL ISSUE

OMB and CBO were unable to resolve a conceptual issue regarding the application of P.L. 99-177 to interest payments made to the Washington Metropolitan Area Transit Authority (WMATA).

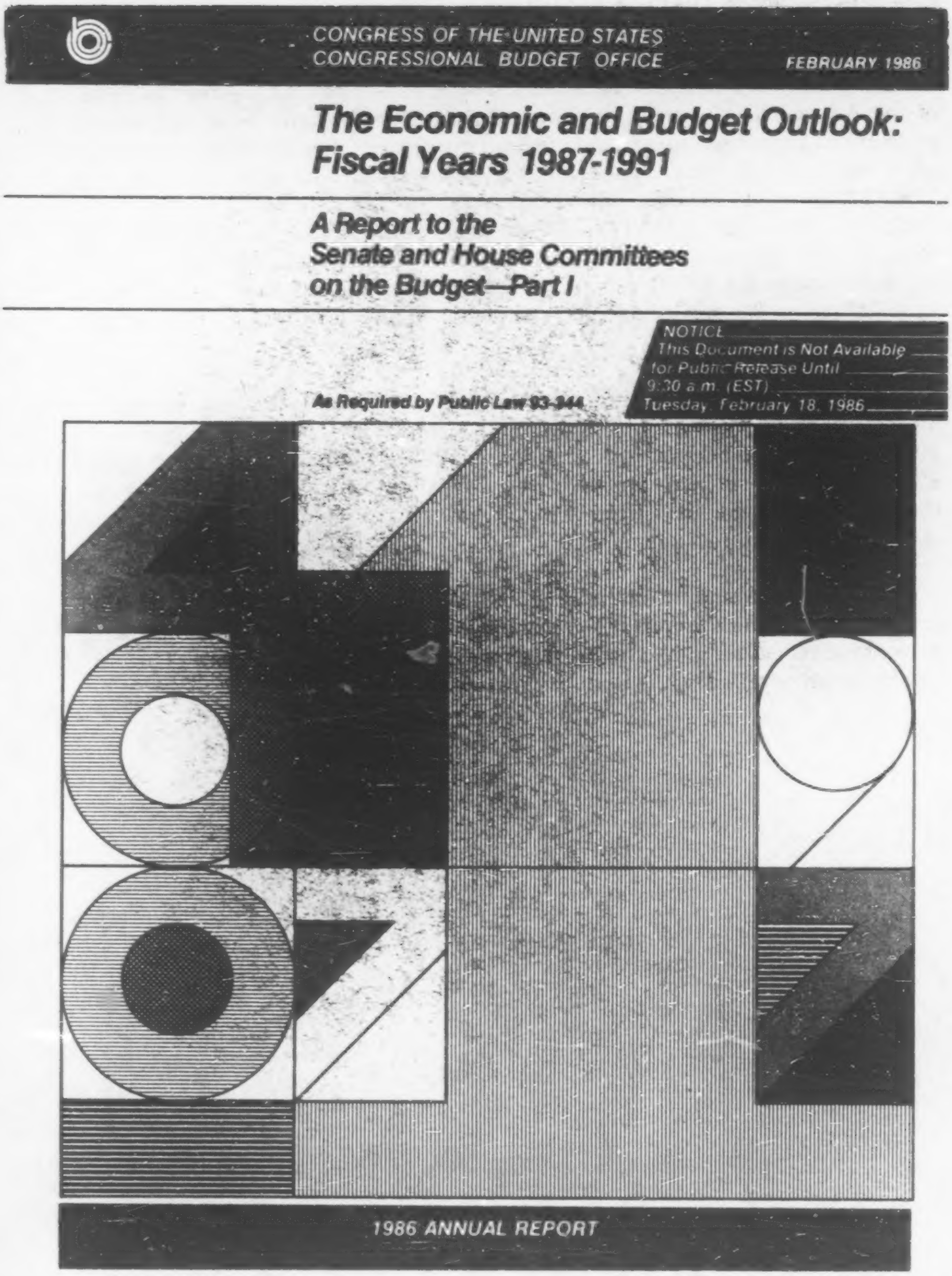
Under the authority of the National Capital Transportation Act of 1969, as amended, the Secretary of Transportation has guaranteed the principal and interest of $997 million in borrowing by WMATA. The National Capital Transportation Amendments of 1979 further authorized the Secretary of Transportation to pay two-thirds of the principal and interest due on these federally guaranteed WMATA bonds. By agreements between the Secretary and the Authority, executed in 1979 and 1982, the federal government has made interest payments to WMATA. These payments are conditional on compliance with the Antideficiency Act, as amended, which prohibits expenditures in advance of, or in excess of, available appropriations. The Congress has regularly appropriated funds to cover the federal obligation to WMATA, including the payments to be made in 1986, which amount to about $51.7 million.

CBO regards the 1986 WMATA interest payment appropriation as nonsequesterable on two grounds. First, the federal obligation grows out of an existing contract that was authorized by law and is fully funded for 1986 by an appropriation act. Under P.L. 99-177, contractual obligations of the federal government incurred before the issuance of a sequester order are, in CBO's view, not subject to sequestration except for certain defense contracts. Second, WMATA bonds are federally guaranteed both as to principal and interest. If the federal government defaults on its obligation to pay its interest share by reason of a sequester, the government nevertheless would remain liable for the full payment under the guarantee, a liability which CBO believes is enforceable by claim against the United States. CBO believes that if a sequestration would ultimately and necessarily be defeated by claims, judgments, and relief acts, which are exempt from sequestration, then the amount in question should not be sequestered.

OMB agrees that the WMATA appropriation ought not to be sequestered, but does not believe this outcome is permitted by the language of P.L. 99-177. The Act provides exemptions for certain named prior legal obligations and, more generally, for obligated balances in nondefense accounts. Section 255(g)(2) of the Act specifically exempts from sequestration the prior legal obligations of 46 credit programs that provide federal guarantees similar to the guarantee provided to the WMATA bonds. OMB believes that an exemption for the WMATA guarantee should have been added to this list, but it was not. In addition, because the WMATA payment is expressly subject to the availability of an annual appropriation, and because all of the payment for 1986 has not yet been obligated, OMB further believes that an exemption for WMATA interest payments based on the existence of an obligated balance is not applicable.

In the meantime, section 251(a)(5) of the Act requires averaging the disagreement over the amount subject to sequestration in the WMATA account, $0 in the case of CBO and $51.7 million in the case of OMB--or an average of $25.8 million. Both Directors are of the view that averaging produces a result that is not consistent with either of their legal positions on the proper treatment of the WMATA interest payment.

Because the amount in disagreement is so small, adoption of one position or the other by the Comptroller General would have no effect on the uniform percentage reduction to be used in sequestering nondefense accounts. The only recalculation required would be in the WMATA account.



CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE
FEBRUARY 1986

The Economic and Budget Outlook: Fiscal Years 1987-1991

A Report to the Senate and House Committees on the Budget—Part I

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1986 ANNUAL REPORT

THE ECONOMIC AND BUDGET OUTLOOK:

FISCAL YEARS 1987-1991

The Congress of the United States
Congressional Budget Office

NOTES

Unless otherwise indicated, all years referred to in this report are calendar years.

Unemployment rates throughout the report are calculated on the basis of the civilian labor force.

Details in the text and tables of this report may not add to totals because of rounding.

The Balanced Budget and Emergency Deficit Control Act of 1985 is also referred to in this volume more briefly as the Balanced Budget Act.

PREFACE

The Congressional Budget Office (CBO) is required by section 202(f) of the Congressional Budget Act of 1974 to submit an annual report on budgetary options to the House and Senate Committees on the Budget. This year, the report is in two parts. This volume, Part I, presents projections of federal revenues and spending that would occur if current laws and policies continued unchanged for the next five years. It also examines the state of the economy and the economic outlook with these budget policies. Part II, *Reducing the Deficit: Spending and Revenue Options*, presents for Congressional consideration a number of broad strategies to reduce projected budget deficits and various specific options for cutting outlays and increasing revenues. In accordance with CBO's mandate to provide objective and impartial analysis, these reports contain no recommendations.

The analysis of the economic outlook presented in Chapter I was prepared by the Fiscal Analysis Division under the direction of William J. Beeman and Jacob S. Dreyer, with the assistance of Robert A. Dennis, Victoria S. Farrell, Douglas R. Hamilton, George R. Iden, Stephen A. Parker, John F. Peterson, Martin A. Regalia, Frederick C. Ribe, Frank S. Russek, Jr., Matthew A. Salomon, John R. Sturrock, Stephan S. Thurman, Lucia S. Foster, Stacy A. Miller, Jeffrey Steger, and Bragi Valgeirsson.

The baseline outlay projections were prepared by the staff of the Budget Analysis Division under the supervision of James L. Blum and C.G. Nuckols. The revenue estimates were prepared by the staff of the Tax Analysis Division under the direction of Rosemary D. Marcuss and Kathleen M. O'Connell with the assistance of Valerie Amerkhail, Neil Fisher, Robert Lucke, Preston Niblack, Linda Radey, and Jan Sundgren. Paul N. Van de Water and Rosemary D. Marcuss were the principal authors of Chapter II and Appendix A. The other appendixes were prepared by David A. Bashore, Paul T. Christy, Andrew F. Haughwout, Richard F. Krop, and Kathy A. Ruffing, who also prepared many of the tables and boxes in Chapter II. James L. Blum wrote Chapter III.

Paul L. Houts supervised the editing and production of the report, assisted by Nancy H. Brooks. Major portions were edited by Francis S. Pierce, Patricia H. Johnston, and Sherry Snyder. Debra M. Blagburn coordinated the preparation of the report. The authors owe special thanks to Dorothy J. Kornegay, Thelma L. Jones, Paula Gatens, Earnestine Miles, and L. Rae Roy, who typed the many drafts. Additional assistance was provided by Kathryn Quattrone.

Rudolph G. Penner
Director

February 1986

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SUMMARY

The outlook for reducing budget deficits has improved dramatically since last summer, and financial markets have responded with a sharp rally. Although overall economic activity has not yet reacted to these improved financial conditions, the Congressional Budget Office (CBO) expects economic growth to pick up this year.

In 1985, the economy grew at a comparatively low rate of 2.3 percent, well below the substantial gains in the first two calendar years of the current expansion. Growth in productivity came to a halt as employment continued to grow rapidly. The unemployment rate edged down during 1985 and, despite three full years of recovery, the inflation rate remained almost unchanged from the moderate rates attained during the last recession.

Most forecasters, including CBO, anticipate that growth in real gross national product (GNP) will be somewhat faster this year--at about 3½ percent--than it was in 1985. The tremendous rally in financial markets during the second half of 1985 and the sharp decline in the dollar have enhanced the prospects for a pickup in economic activity in 1986. The rise in stock prices and the decline in interest rates will encourage consumer spending and business capital spending, while the decline in the dollar should halt the deterioration in the trade sector. If lower oil prices are sustained, the sharp drop in prices early this year will contribute to growth in economic activity and restrain inflation.

The improvement in financial conditions and the decline in the dollar last year were, at least partially, the result of the dramatic change in the outlook for reducing future budget deficits. The implementation of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177), together with earlier Congressional action, will reverse the recent trend of rising budget deficits. Although a federal district court recently ruled that certain aspects of the Balanced Budget Act are unconstitutional, the deficit targets established by the act still remain in effect. These targets would lower projected deficits from about $208 billion in the current fiscal year to $144 billion in fiscal year 1987, with annual reductions of $36 billion thereafter. The decline in the structural deficit from fiscal year 1986 to 1987 would be about 1.5 percent of potential GNP, the third largest such reduction in fiscal stimulus since the mid-1950s. By itself, such an abrupt shift in fiscal posture could temporarily slow the economic expansion in 1987. But several other factors--including the decline in the dollar, lower interest rates, and the fall in oil prices--are expected to counteract the contractionary effects of the budget shift.

CBO's new baseline budget estimates show much smaller deficits in the 1987-1990 period than the baseline projection of last summer (see Summary Table 1). While the policies of last year's budget resolution were not fully carried out, Congressional action to date has significantly lowered projected defense and nondefense spending. The projected decline in budget

SUMMARY TABLE 1. BASELINE BUDGET PROJECTIONS, DEFICIT TARGETS, AND UNDERLYING ECONOMIC ASSUMPTIONS

	Actual 1985	1986	1987	1988	1989	1990	1991
Budget Projections (By fiscal year, in billions of dollars)							
Baseline Estimates							
Revenues	734	778	844	921	991	1,068	1,144
Outlays	946	986	1,025	1,086	1,135	1,188	1,248
Deficit	212	208	181	165	144	120	104
Deficit Targets	N.A.	a/	144	108	72	36	0
Baseline Less Targets	N.A.	a/	37	57	72	84	104
Economic Assumptions (By calendar year)							
Nominal GNP, percent change	5.8	6.9	7.3	7.6	7.8	7.8	7.5
Real GNP, percent change	2.3	3.2	3.1	3.3	3.5	3.5	3.2
CPI-W, percent change	3.5	3.4	4.2	4.4	4.4	4.3	4.3
Civilian Unemployment Rate	7.2	6.7	6.7	6.5	6.3	6.1	6.0
Three-Month Treasury Bill Rate	7.5	6.8	6.7	6.4	6.1	5.7	5.4

SOURCE: Congressional Budget Office
NOTE: N.A. = not applicable.

a. The Balanced Budget Act set a target of $171.9 billion in fiscal year 1986, but limited the sequestration to $11.7 billion. CBO's fiscal 1986 baseline deficit estimate includes the $11.7 billion sequestration, and therefore the $208.3 billion deficit for that year fulfills the act's requirement.

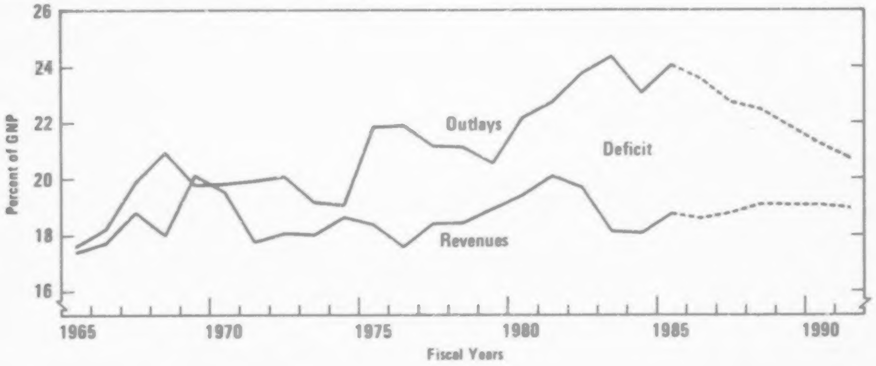
deficits under the policy assumptions of the baseline occurs because revenues are projected to grow in response to both inflation and growth in real incomes, while outlays are projected to grow only slightly faster than the rate of inflation (see Summary Figure 1). The baseline assumes no real growth in defense and nondefense appropriations above a base already cut by the 1986 sequestration called for in the Balanced Budget Act. The additional action needed to comply with the deficit targets amounts to about $37 billion in fiscal year 1987, or $354 billion over the 1987-1991 period.

The sharp decline in long-term interest rates in 1985 seemed to reflect a market expectation of less Treasury borrowing in future years. Sectors of the economy that are interest-sensitive, such as residential construction, already show signs of increased strength. But the major benefit of reduced budget deficits will come, it is generally agreed, in their long-run effects on living standards. Other things being equal, lower deficits should reduce real interest rates and foreign capital inflows, thereby encouraging increased domestic capital formation and reduced foreign indebtedness.

THE ECONOMIC OUTLOOK

The slowing of economic growth in 1985 was largely the result of a reduction in inventory investment. Growth in real final sales was down only

Summary Figure 1.
Baseline Revenues and Outlays



SOURCES: Congressional Budget Office; Office of Management and Budget; U.S. Department of Commerce, Bureau of Economic Analysis.

slightly from 4.5 percent in 1984 to 4.0 percent in 1985, as weaker household and business spending was partially offset by strengthened government defense purchases and slower deterioration of the trade sector.

At year-end, most indicators began to reflect improving economic conditions. A major exception was net exports, which in December showed sharp further deterioration. But housing starts, retail sales, durable goods orders, employment, capacity utilization, and the overall index of leading indicators all rose sharply. The rally in the stock and bond markets, the decline in the dollar, and the growth of employment are likely to provide a boost to demand in 1986. Moreover, inventories were quite lean at year-end, except for autos, so that increased strength in final sales is likely to be quickly translated into output.

Another development that could have very favorable effects on both inflation and economic growth in the forecast period is the recent drop in oil prices. The CBO forecast was completed in December, before the recent sharp declines. Some decline was assumed in the forecast. By early February, however, short-term futures prices for crude oil were in the $15 to $19 range per barrel--about $6 below the refiners' acquisition cost assumed in CBO's economic projection for mid-1986. Oil prices have been very volatile, however, and some of the decline could be reversed if oil producers agree on a new distribution of output quotas.

The Forecast for 1986 and 1987

The first two years of CBO's baseline economic projections are a "conditional" forecast based on specific policy assumptions:

- o The Balanced Budget Act of 1985 is assumed to be fully implemented. The budget deficit is $208.3 billion in fiscal year 1986, well above the $171.9 billion target because the automatic spending cut is limited to $11.7 billion this year. For fiscal year 1987, the forecast assumes that the $144 billion deficit target will be attained.

- o The preliminary target ranges for the levels of the narrower monetary aggregates announced last July are assumed to be adjusted somewhat to reflect actual experience through late 1985.

In addition, dollar exchange rates are assumed to decline this year, though less rapidly than in the second half of 1985. Oil prices are assumed to decline about 18 percent from from the last quarter of 1985 to mid-1986, and food prices are assumed to rise less than the general price level.

Given these assumptions, CBO expects inflation-adjusted GNP to grow 3.6 percent in 1986 and 3.0 percent in 1987 on a fourth-quarter-to-fourth-quarter basis (see Summary Table 2). The unemployment rate is projected to remain steady at 6.7 percent through calendar 1987. Inflation is expected to rise gradually in the forecast period. The three-month Treasury bill rate is expected to decline from 7.5 percent in 1985 to 6.7 percent in 1987.

Medium-Term Economic Projections

The projections for 1988-1991 are not a forecast of economic conditions, but assumptions based on average historical experience. Specifically, the growth rate for real GNP from the fourth quarter of 1982 to the fourth quarter of 1991 is assumed to equal the average growth rate in the nine-year periods following earlier postwar recessions. These outyear economic assumptions are not predicated on specific budget policies, and may not be consistent with the budget policies now in place. The major characteristics of the 1988-1991 projections are shown in Summary Figure 2:

- Real GNP grows moderately at an average rate of approximately 3.4 percent.
- The unemployment rate declines gradually to 6.0 percent by 1991.

SUMMARY TABLE 2. THE CBO FORECAST (Fourth-quarter-to-fourth-quarter growth rates)

	Actual		Projected	
	1984	1985	1986	1987
Nominal GNP	9.0	5.8	7.6	7.2
Real GNP	4.7	2.5	3.6	3.0
GNP Implicit Price Deflator	4.1	3.2	3.9	4.1
CPI-W	3.6	3.2	3.5	4.5

- Inflation, measured by the CPI-W, holds at about 4.3 percent over the projection period.
- Interest rates decline in the outyear projection. The three-month Treasury bill rate, for example, declines from 6.7 percent in 1987 to 5.4 percent in 1991.

Uncertainty in the Outlook

The performance of the economy could easily turn out to be much better or worse than CBO projects. The major uncertainties in the near term are

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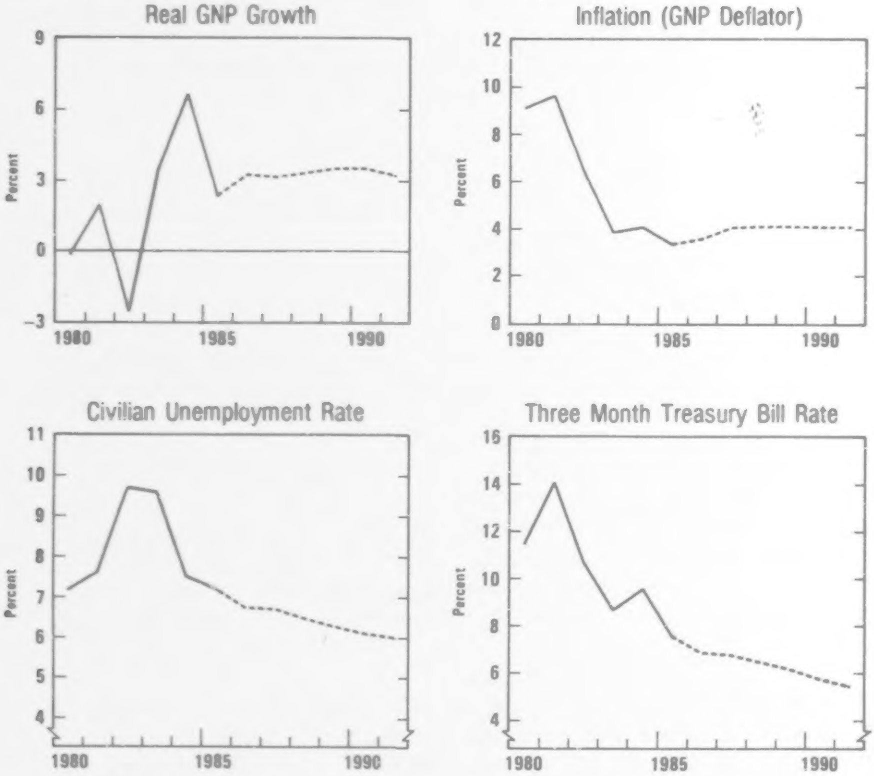
Summary Figure 2.

Major Economic Assumptions



SOURCES: Congressional Budget Office; U.S. Department of Commerce, Bureau of Economic Analysis, U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Board.

related to oil prices, the trade sector, financial conditions, and federal fiscal policy. Should oil prices remain low, inflation could be significantly lower and real output higher than projected by CBO. The recent decline in interest rates has greatly improved the financial status of many financial institutions and reduced the debt-service costs of developing countries. But some countries will be made worse off by the drop in oil prices and some financial institutions still suffer from poor-quality loans. For this reason, a financial crisis that would significantly raise risk premiums and interest costs cannot be ruled out.

Both the future course of the dollar and the response of net exports to the dollar's recent fall are difficult to predict. Some forecasters believe that foreign exporters will try to maintain their market shares by reducing profit margins rather than raising prices, thereby causing a delay in the response of U.S. imports to the depreciation of the dollar. Finally, the Balanced Budget Act may not be fully implemented, especially if constitutional challenges to the act are successful. Moreover, exactly how the deficit targets will be met is unclear. These uncertainties make it difficult to predict the short-run economic consequences of the projected turnaround in fiscal policy.

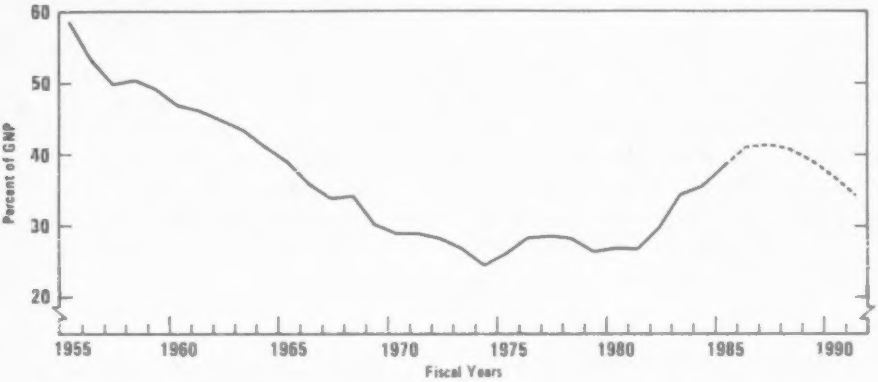
THE BUDGET OUTLOOK

Under CBO's baseline assumptions, which include no real growth in defense or nondefense appropriations, the total federal deficit would fall from $208 billion in 1986 to $181 billion in 1987 and $104 billion in 1991 (see Summary Table 1). The projected decline in baseline deficits parallels the deficit targets in the 1986 budget resolution, but falls increasingly short of the deficit targets in the Balanced Budget Act, which contemplates a zero deficit in 1991.

Over the next five years, revenues are projected to grow on average by 8 percent per year, slightly faster than the assumed average growth of the economy. On the other hand, outlays are projected to rise by an average of 4.8 percent per year, only slightly higher than the assumed rate of inflation. As a result, revenues would remain roughly constant as a percent of GNP, but federal outlays and the deficit would fall, as shown in Summary Figure 1.

The projected decline in budget deficits would slow the growth of federal debt and reduce the government's share of total credit demand. Under CBO's baseline assumptions, publicly held federal debt is projected to grow from $1.7 trillion by the end of 1986 to $2.4 trillion by the end of 1991.

Summary Figure 3.
Federal Debt Held by the Public



SOURCES: Congressional Budget Office; Office of Management and Budget; U.S. Department of Commerce, Bureau of Economic Analysis.

NOTE: The values shown for the 1986-1991 fiscal years are based on the assumption that the deficit targets of the Balanced Budget Act will be met.

In relation to GNP, debt held by the public would grow from 41.0 percent in 1986 to a peak of 42.7 percent in 1988 and then decline to 40.2 percent by the end of 1991. Of course, the decline in the debt-to-GNP ratio would be sharper if the Balanced Budget Act is implemented (see Summary Figure 3).

Changes in Baseline Projections

The budget outlook under baseline assumptions has changed dramatically from a year ago. In its 1985 annual report, and again in its update report last August, CBO projected that baseline deficits would rise from slightly more than $200 billion in 1985 to almost $300 billion by 1990. The basic change in the deficit outlook in this report has resulted from lower projections for spending, primarily for defense and nondefense discretionary programs and for net interest costs (see Summary Table 3).

CBO's baseline projections of last year assumed that defense appropriations would increase as specified in the 1985 budget resolution (and extended to 1990), at an average rate of 5½ percent in real terms--after adjustments for projected inflation. The 1986 budget resolution specified zero real growth for defense appropriations in 1986 and 3 percent real growth thereafter. Actual 1986 defense appropriations, however, fell short of the budget resolution target, and the 1986 sequestration will reduce the amount of new budget authority even further, to below the 1985 level. CBO's latest baseline projections assume zero real growth in defense appropriations from the 1986 post-sequestration level. Because the Balanced Budget Act lowered the outyear deficit targets contained in the 1986 budget resolution, the assumptions of the resolution can no longer be taken as necessarily representing current Congressional policy. The combination of these factors reduces projected defense outlays by $250 billion for 1986 through 1990 compared with CBO's baseline projections of last August.

Even with 3 percent real growth in defense appropriations in 1987 and beyond, baseline deficits would decline over the next five years, although not as sharply. Instead of baseline deficits declining from $208 billion in 1986 to $104 billion in 1991, they would decline to $150 billion.

SUMMARY TABLE 3. CHANGES IN CBO BASELINE DEFICIT PROJECTIONS SINCE AUGUST 1985
(By fiscal year, in billions of dollars)

Major Changes	1986	1987	1988	1989	1990
August 1985 Baseline Deficit	212	229	243	264	285
Major Changes:					
Lower defense outlays	-9	-26	-48	-71	-96
Lower nondefense discretionary program outlays	-10	-19	-20	-21	-22
Lower net interest costs	a/	-7	-16	-31	-51
Other outlay changes	6	-4	-4	-8	-12
Lower revenues	9	9	10	11	16
Total changes	-4	-48	-78	-120	-165
February 1986 Baseline Deficit	208	181	165	144	120

SOURCE: Congressional Budget Office.

a. Less than $500 million.

The latest baseline projections for nondefense discretionary programs are also lower than those made last year, reflecting reductions made in 1986 appropriations and the effects of the 1986 sequestration. The reduction from CBO's baseline projections of last August is almost $92 billion for the five-year period 1986-1990.

CBO's latest short-term forecast and long-run economic assumptions also feature lower interest rates than assumed last year. These lower rates, together with a reduction in debt service costs because of other changes, reduce net interest outlays by over $100 billion for 1986-1990 compared with last August's baseline projections. Relatively small changes in baseline deficits result from revised projections for farm price supports and Medicare and other entitlement programs, and from slightly lower projected revenues.

Alternative Projections

To show how changes in economic assumptions can affect budget outcomes, CBO has prepared two alternative sets of projections (see Summary Table 4). They are intended to illustrate what could happen if economic growth turns out to be higher or lower than projected over the next six years.

The high path assumes growth almost equal to that of the strongest nine-year expansion of the postwar period, which occurred after the recession of 1957-1958. Because the pace of economic expansion up to now has been close to that in an average recovery pattern, this path implies unusually strong growth from now through 1991. As a result, unemployment falls to 4.6 percent in 1991, while the inflation rate more than doubles. Interest rates also rise sharply after 1988, paralleling the higher inflation rate.

The low path incorporates a recession starting in 1987, which has the depth and duration of the 1973-1975 recession, and is followed by an average economic recovery. The weaker growth results in lower inflation and lower interest rates than in the CBO economic assumptions after 1987, and higher unemployment rates.

Under the high-growth economic assumptions, the deficit drops swiftly to near balance by 1990 and a sizable surplus in 1991. Under the low-growth assumptions, however, the deficit grows sharply. For example, in fiscal year 1989, the year following the recession incorporated in the low-growth path, the deficit is more than $125 billion above the CBO baseline projection.

AUTOMATIC SPENDING REDUCTIONS

If the Congress fails to reduce the 1987 deficit to $144 billion before the start of the fiscal year, an automatic procedure could be invoked that would make the reduction by sequestering budgetary resources. Under CBO's February assumptions, a 1987 sequestration would reduce total outlays to $989 billion--$37 billion below the baseline projection. As shown in Summary Table 5, there would be almost no growth in total outlays beyond the 1986 estimated level of $986 billion.

SUMMARY TABLE 4. ALTERNATIVE ECONOMIC AND BUDGET PROJECTIONS

	1986	1987	1988	1989	1990	1991
Economic Projections (By calendar year)						
Real GNP (percent change)						
High-growth alternative	4.0	4.3	4.4	4.6	4.6	4.6
Baseline	3.2	3.1	3.3	3.5	3.5	3.2
Low-growth alternative	3.0	-0.7	-0.8	5.4	3.4	3.2
CPI-W (percent change)						
High-growth alternative	3.4	4.3	5.2	6.3	7.5	9.1
Baseline	3.4	4.2	4.4	4.4	4.3	4.3
Low-growth alternative	3.6	4.4	3.9	3.0	2.5	2.5
Civilian Unemployment Rate						
High-growth alternative	6.6	6.3	5.8	5.5	5.1	4.6
Baseline	6.7	6.7	6.5	6.3	6.1	6.0
Low-growth alternative	6.9	8.4	9.9	8.9	8.8	8.7
Three-Month Treasury Bill Rate						
High-growth alternative	6.5	6.1	7.5	8.5	9.7	11.1
Baseline	6.8	6.7	6.4	6.1	5.7	5.4
Low-growth alternative	7.6	7.7	5.9	5.6	4.9	4.3
Budget Projections (By fiscal year, in billions of dollars)						
Deficit (-) or Surplus						
High-growth alternative	-202	-154	-111	-61	-1	70
Baseline	-208	-181	-165	-144	-120	-104
Low-growth alternative	-210	-224	-282	-271	-238	-237

SOURCE: Congressional Budget Office.

The sequestration procedures under the Balanced Budget Act for 1987 would begin in August 1986 when CBO and the Office of Management and Budget send their initial budget estimates either to the Comptroller General or to a special joint committee of the Congress. The CBO estimates presented in this report are made for illustrative purposes and are subject to significant revision over the next six months as the result of legislative actions, changes in the economic outlook, and other factors. These estimates show that relying on the sequestration procedures to reach the $144 billion deficit amount for 1987 would mean reductions of $18 billion in outlays for defense programs and $17 billion for nondefense programs from CBO's projected baseline levels, which include the effects of the 1986

SUMMARY TABLE 5. EFFECT OF SEQUESTRATIONS ON BUDGET OUTLAYS FOR 1986 AND 1987 (By fiscal year, in billions of dollars)

Category	1986	1987
Defense Programs a/		
Presequester baseline levels	275	293
1986 sequester	269	284
1987 sequester	269	266
Nondefense Programs b/		
Presequester baseline levels	618	639
1986 sequester	612	632
1987 sequester	612	615
Net Interest and Undistributed Offsetting Receipts c/		
Presequester baseline levels	105	111
1986 sequester	104	109
1987 sequester	104	107
Total Outlays		
Presequester baseline levels	998	1,043
1986 sequester	986	1,025
1987 sequester	986	989

SOURCE: Congressional Budget Office.

a. Budget function 050, national defense.
b. Budget functions 150 through 850, and 920.
c. Budget functions 900 and 950.

sequestration. The result would be to hold outlays for both defense and nondefense programs to roughly the same levels as estimated for 1986.

To achieve these outlay reductions, defense appropriations for 1987 would have to be reduced 6.2 percent below 1986 post-sequestration levels, and nondefense discretionary appropriations would have to be cut by 8.4 percent. The reductions in real terms would be even greater because of the loss of any adjustment for inflation in 1987. For defense programs, new budget authority for 1987 would be limited to $271 billion, which is $30 billion below CBO's baseline projection and $49 billion below the Administration's budget request.

CHAPTER I

THE ECONOMIC OUTLOOK

In 1985, the U.S. economy experienced its third full year of recovery and expansion following the recession of 1981-1982. The pace of expansion slowed noticeably, however, compared with the two preceding years. Most forecasters expect growth to pick up again during 1986, in part because of major turnabouts in government policies and in commodity markets that occurred late last year. The Congress passed major legislation to eliminate the federal budget deficit over a six-year period beginning in 1986. This action appears to have contributed to the rally in the bond and stock markets, which carried long-term interest rates to their lowest levels in six years and raised stock prices to record levels. In response to falling U.S. interest rates, as well as to concerted action by governments of major industrialized countries, the international value of the dollar posted its first sustained decline in several years. Finally, late in 1985 the price of oil began to drop sharply. As this report went to press, real oil prices were at levels below those of the mid-1970s.

THE ECONOMIC OUTLOOK

The current Congressional Budget Office (CBO) economic forecast is much like that of last August. The outlook is still for moderate economic growth in 1986 and 1987 of 3 percent to 4 percent annually. CBO also expects inflation to be somewhat lower than it anticipated last August.

The CBO economic projections are composed of two parts: a short-term forecast for the 1986-1987 period, which is contingent on specific fiscal and monetary policies described below; and a set of medium-term projections for the period 1988-1991. It is important to note, however, that the figures for 1988-1991 are not forecasts of probable economic behavior, but rather a projection of how the economy would evolve during that period if it followed historical trends. 1/

---

1. The Commerce Department has recently released a major benchmark revision of the National Income and Product Accounts. This revision makes a number of conceptual changes, and rebases real spending from 1972 dollars to 1982 dollars (see Box I-1 for a detailed description of the revision and its implications). CBO's economic projection uses the revised figures.

The Short-Term Forecast

CBO's forecast for 1986 and 1987 is based on the following assumptions about economic policy and other developments:

- The budget deficit targets of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) are assumed to be fully implemented. Although the deficit target is $171.9 billion for fiscal year 1986, the legislation limits the size of the sequestration (automatic spending cut) in fiscal year 1986 to a maximum of $11.7 billion. Since CBO projections show that the deficit would be $220 billion if no cuts were made, the fiscal year 1986 unified budget deficit is assumed to be $208 billion (see Chapter II). The act imposes no cap on sequestration for later years. Consequently, the deficit for fiscal year 1987 is assumed to be at the target of $144 billion.

- The preliminary target ranges announced last July for the levels of the narrower monetary aggregates are assumed to be adjusted upward somewhat to reflect actual experience through late 1985.

- Food prices are expected to increase less than the general price level.

- The international value of the dollar is assumed to continue to decline, though less rapidly than in the last three months.

- The price (refiners' acquisition cost) of imported oil is assumed to fall about 18 percent between the last quarter of 1985 and mid-1986.

Given the assumptions described above, CBO expects real GNP to grow 3.6 percent between the fourth quarters of 1985 and 1986 and 3.0 percent during 1987 (see Table I-1). It also anticipates that the civilian unemployment rate will average 6.7 percent over 1986 and 1987.

The inflation rate (measured by the change in the implicit GNP deflator) is expected to increase from 3.2 percent over the four quarters of 1985 to 3.9 percent during 1986 and 4.1 percent during 1987. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is forecast to rise 3.5 percent in 1986 and 4.5 percent in 1987.

Interest rates are expected to decline modestly in 1986. Rates on three-month Treasury bills are forecast to fall from 7.5 percent last year to

6.8 percent in 1986 and 6.7 percent in 1987. Rates on 10-year government bonds are expected to fall from 10.6 percent in 1985 to 9.0 percent in 1986 and 8.9 percent in 1987. This implies a flattening of the yield curve and also substantially lower short- and long-term real interest rates than have prevailed so far in the economic recovery.

Several factors underlie the expectation of continued economic growth in 1986 and 1987:

- The recent decline in long-term interest rates should provide a favorable environment for investment. Residential investment is forecast to exceed 1985 levels. Lower real interest rates and continued underlying strength in consumer demand should also encourage businesses to invest in new plant and equipment, though the rate of growth in business investment is expected to slow in 1986 and later years.

- Inventories generally do not appear to be excessive after more than a year of reduced rates of inventory accumulation. Moreover, lower interest rates should reduce the costs of holding

TABLE I-1. THE CBO FORECAST FOR 1986 AND 1987 (In percents)

Economic Variable	Actual		Forecast	
	1984	1985	1986	1987
Fourth Quarter to Fourth Quarter				
Nominal GNP a/	9.0	5.8	7.6	7.2
Real GNP a/	4.7	2.5	3.6	3.0
Implicit GNP Deflator a/	4.1	3.2	3.9	4.1
CPI-W	3.6	3.2	3.5	4.5
Calendar-Year Averages				
Civilian Unemployment Rate	7.5	7.2	6.7	6.7
3-Month T-Bill Rate	9.5	7.5	6.8	6.7
10-Year Government Bond Rate	12.4	10.6	9.0	8.9

a. Projected growth rates are assumed to be similar on a prebenchmark and postbenchmark basis.

inventories, leading some forecasters to predict that businesses will increase their inventory stocks.

- The recent decline in the international value of the dollar should lead to an eventual improvement in the trade balance.

- Lower energy prices are expected to increase real incomes, stimulating the growth of consumption and investment.

In 1986, inflation is expected to rise only slightly. Greater price increases in some sectors are largely offset by the weakness in the prices of oil and other commodities, continued excess industrial capacity, and slack in labor markets. But a continuing decline of the dollar, coupled with the possibility that there will be delayed effects of the large increases in the money supply that have occurred over the last year, may put upward pressure on prices in 1987.

Forecasts for real growth and inflation in 1986 and 1987 are highly uncertain, particularly in light of possible further large movements in energy prices and in the dollar. In early February short term oil price futures were below the refiners' acquisition cost assumed in CBO's forecast for mid-1986 by roughly $6 per barrel. Prices remained volatile, however, and market analysts were split as to whether prices might fall further or regain some lost ground. These uncertainties are discussed further in the sections below.

The Medium-Term Economic Projections

CBO's projections for 1988 through 1991, shown in Tables I-2 and I-3, are not forecasts of economic performance, nor are they necessarily exactly consistent with future economic policies. Instead, they show what the economy's course would be if it were to follow longer-term historical trends in real growth. Nine years separate the most recent recession trough from the last quarter of 1991. On average, since World War II, the annual growth rate of real GNP over such nine-year periods has been 3.7 percent. The CBO projection closely approximates this result.

Such nine-year periods have usually contained at least one new recession, and the current projections allow for a mild downturn. Because of the great uncertainty regarding the timing of business cycles, however, CBO has made no attempt to forecast when that downturn might occur. Instead, the growth rate has been smoothed in the projections so that it averages about 3.5 percent per year from 1988 through 1990. After that, growth slows as the unemployment rate approaches levels at which many economists would expect labor markets to tighten.

The projections show inflation (measured by the implicit GNP deflator) averaging slightly above 4 percent over the 1988-1991 period. Real interest rates are assumed to decline over those years, a reflection of the assumed effect of lower federal deficits under current law. The projections assume that lower federal deficits may also reduce the need for capital inflows from abroad, which will allow the exchange rate to fall and bring about a long-run improvement in net exports.

Behavior of the Tax Base. CBO's projections of federal revenues depend in part on how wages, profits, interest payments, and other incomes are projected to behave. The share of wages and salaries in GNP is expected to remain roughly constant through 1991. Underlying this flattening of the recent downward trend is the assumption that real wages, which have been weak for several years, will grow at a rate that approaches the rate of growth of productivity. The share of nonwage income (proprietors' income, rental income, personal dividend and interest income) in GNP is assumed to fall, primarily because lower interest rates and a lower federal deficit reduce personal interest income. The share of profits in GNP is increased by the reduction in corporate interest expense, and by an assumed slower growth in employer contributions for health insurance and for pension funds. [2]

Sources of Uncertainty. Medium-term projections are necessarily quite uncertain. CBO's projections assume that there will be no major positive or negative supply shocks after 1987, such as those that might result from massive oil price changes in either direction or large crop surpluses or crop failures. The projections also include assumptions about labor force participation rates that have proved quite unreliable in the past. Moreover, for reasons not fully understood, the growth rate of labor productivity has been below average since the late 1970s. The CBO projection assumes that the relation between real growth and worker hours will approximate the postwar experience, and thus incorporates some improvement in this area. There is a risk, however, that productivity growth will follow its more recent trend rather than the higher path that CBO assumes.

The performance of the economy over the medium term will also depend on the policies pursued by the Federal Reserve, as well as on domestic fiscal policy and its repercussions. If, for example, the Federal Reserve were to follow a policy of gradually reducing the annual growth rate of the money supply, it could cause the growth rate of nominal GNP

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2. Recent Internal Revenue Service regulations permitting "cafeteria" benefit plans are not reflected in the economic projections, but are incorporated in the revenue projections described in Chapter II.

TABLE I-2. MEDIUM-TERM ECONOMIC PROJECTIONS FOR CALENDAR YEARS 1988-1991

Economic Variable	Actual	Forecast		Projected			
	1985	1986	1987	1988	1989	1990	1991
GNP (billions of current dollars) a/	3,993	4,269	4,583	4,930	5,313	5,725	6,152
Nominal GNP Growth (percent change) a/	5.8	6.9	7.3	7.6	7.8	7.8	7.5
Real GNP Growth (percent change) a/	2.3	3.2	3.1	3.3	3.5	3.5	3.2
Implicit GNP Deflator (percent change) a/	3.3	3.6	4.1	4.1	4.1	4.1	4.1
CPI-W (percent change)	3.5	3.4	4.2	4.4	4.4	4.3	4.3
Civilian Unemployment Rate (percent)	7.2	6.7	6.7	6.5	6.3	6.1	6.0
Three-Month Treasury Bill Rate (percent)	7.5	6.8	6.7	6.4	6.1	5.7	5.4
Ten-year Government Bond Rate (percent)	10.6	9.0	8.9	8.2	7.5	6.8	6.1
Corporate Profits (percent of GNP)	7.5	8.1	8.1	8.2	8.2	8.1	7.9
Wage and Salary Disbursements (percent of GNP)	49.1	49.1	49.1	49.0	48.8	48.8	48.9
Other Taxable Income (percent of GNP)	19.8	19.3	19.2	19.1	19.0	18.9	18.8

SOURCE: Congressional Budget Office.

a. Projected growth rates are assumed to be similar on a prebenchmark and postbenchmark basis, starting with the first quarter of 1986.

TABLE I-3. MEDIUM-TERM ECONOMIC PROJECTIONS FOR FISCAL YEARS 1988-1991

Economic	Actual	Forecast		Projected			
Variable	1985	1986	1987	1988	1989	1990	1991
GNP (billions of current dollars) a/	3,937	4,192	4,504	4,838	5,214	5,619	6,047
Nominal GNP Growth (percent change) a/	6.5	6.5	7.4	7.4	7.8	7.8	7.6
Real GNP Growth (percent change) a/	2.9	3.0	3.3	3.2	3.5	3.5	3.4
Implicit GNP Deflator (percent change) a/	3.6	3.4	4.0	4.1	4.1	4.1	4.1
CPI-W (percent change)	3.5	3.3	3.9	4.4	4.4	4.3	4.3
Civilian Unemployment Rate (percent)	7.2	6.8	6.7	6.5	6.3	6.2	6.0
Three-Month Treasury Bill Rate (percent)	7.9	6.9	6.7	6.5	6.2	5.8	5.5
Ten-year Government Bond Rate (percent)	11.1	9.2	8.9	8.4	7.7	7.0	6.3
Corporate Profits (percent of GNP)	7.3	7.9	8.2	8.1	8.2	8.1	8.0
Wage and Salary Disbursements (percent of GNP)	49.0	49.1	49.1	49.0	48.9	48.8	48.8
Other Taxable Income (percent of GNP)	20.0	19.4	19.2	19.1	19.0	18.9	18.8

SOURCE: Congressional Budget Office.

a. Projected growth rates are assumed to be similar on a prebenchmark and postbenchmark basis, starting with the first quarter of 1986.

and the rate of inflation to decline in the projection period rather than staying constant, as in CBO's projections. It is uncertain whether such lower nominal GNP growth could be achieved without also reducing that of real GNP below the projected rate.

Finally, achieving the deficit reductions called for in the Balanced Budget and Emergency Deficit Control Act of 1985 will require major changes in federal purchases, transfers, subsidies, and perhaps also taxes. There is great controversy within the economics profession about the impact of such fiscal policy changes, and it is possible that they could make the economy grow more slowly than CBO projects.

Alternative Projections

To show how changes in economic assumptions can affect budget outcomes, CBO has prepared two alternative sets of economic projections that are intended to illustrate what could happen if economic growth turned out to be higher or lower than projected (see Table I-4 and Figure I-1). They should not be seen as limits to the range of likely growth rates, since for a short period economic growth could move outside this range.

The high path assumes that average real GNP growth through 1991 is 1.2 percentage points higher than in CBO's baseline projection. This puts real GNP at the end of 1991 some 49 percent above its value at the recession trough in the final quarter of 1982, the same increase as that experienced in the strongest nine-year expansion of the postwar period, which occurred after the recession of 1957-1958. Because the pace of economic expansion up to now has been close to that in the average recovery pattern, this path implies unusually strong growth from now through 1991. As a result, the unemployment rate falls to 4.6 percent in 1991, well below the level at which most economists would expect inflation to pick up, causing the inflation rate to more than double over the projection period. Interest rates rise sharply higher than in CBO's baseline economic projection after 1988, reflecting both higher inflation and efforts by the monetary authorities to restrain it.

The low path assumes a recession starting in 1987. The recession has approximately the depth and duration of that experienced in 1973-1975, and is followed by an average economic recovery. 3/ The unemployment rate

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3. CBO's baseline projections are constructed in a way that does not rule out a minor recession. The low-path alternative differs in that the recession is unusually large, and also that a specific date for the recession is assumed.

TABLE I-4. ALTERNATIVE ECONOMIC PROJECTIONS (By calendar year)

	1986	1987	1988	1989	1990	1991
GNP (billions of dollars) a/						
High	4,305	4,687	5,141	5,706	6,410	7,312
Baseline	4,269	4,583	4,930	5,313	5,725	6,152
Low	4,264	4,424	4,517	4,903	5,179	5,459
Real GNP (percent change) a/						
High	4.0	4.3	4.4	4.6	4.6	4.6
Baseline	3.2	3.1	3.3	3.5	3.5	3.2
Low	3.0	-0.7	-0.8	5.4	3.4	3.2
Implicit Price Deflator (percent change) a/						
High	3.7	4.3	5.0	6.1	7.4	9.1
Baseline	3.6	4.1	4.1	4.1	4.1	4.1
Low	3.7	4.5	2.9	3.0	2.2	2.1
CPI-W (percent change)						
High	3.4	4.3	5.2	6.3	7.5	9.1
Baseline	3.4	4.2	4.4	4.4	4.3	4.3
Low	3.6	4.4	3.9	3.0	2.5	2.5
Unemployment Rate (percent)						
High	6.6	6.3	5.8	5.5	5.1	4.6
Baseline	6.7	6.7	6.5	6.3	6.1	6.0
Low	6.9	8.4	9.9	8.9	8.8	8.7
3-Month Treasury Bill (percent)						
High	6.5	6.1	7.5	8.5	9.7	11.1
Baseline	6.8	6.7	6.4	6.1	5.7	5.4
Low	7.6	7.7	5.9	5.6	4.9	4.3

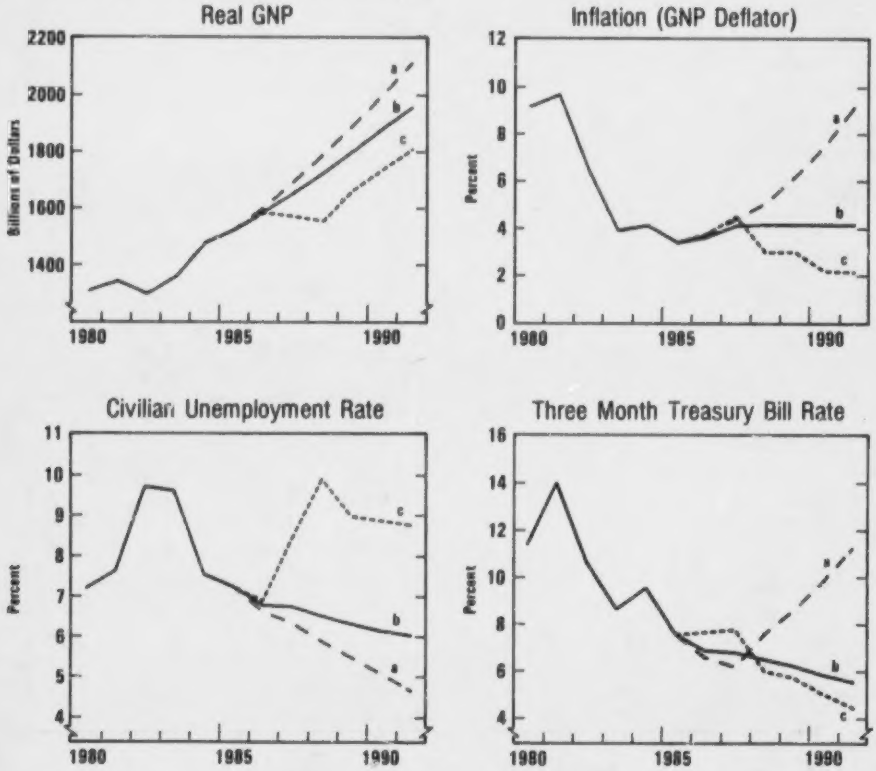
SOURCE: Congressional Budget Office.

a. Projected growth rates are assumed to be similar on a prebenchmark and postbenchmark basis, starting with the first quarter of 1986.

rises to 9.9 percent in 1988 and remains at 8.7 percent in 1991. The inflation rate, which is assumed to rise slightly above its baseline level just before the recession, drops to 2.1 percent in 1991. Interest rates are assumed to remain high during most of the recession, but to drop afterward, reflecting the lower inflation rate. After adjusting the three-month Treasury bill rate for inflation, however, the resulting real interest rate is still almost a full percentage point above its baseline value.

Figure I-1.

Alternative Economic Assumptions



SOURCES: Congressional Budget Office; U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Board.

[a] High path.

[b] Baseline.

[c] Low path.

FISCAL AND MONETARY POLICY

The federal deficit reached record levels in 1985, and the monetary aggregates grew rapidly. But the prospects for reducing future federal deficits were enhanced by passage of the fiscal year 1986 budget resolution and the Balanced Budget Act. The changed outlook for budget deficits probably contributed to the decline in long-term interest rates that occurred late in the year.

Fiscal Policy

Fiscal policy became highly expansionary during the 1980s, with the federal deficit increasing severalfold to a level of more than $200 billion. Now the outlook is for a shift to substantial restraint beginning next year (see Figure I-2 and Table I-5). Under the Balanced Budget Act, the deficit (including off-budget outlays) is to be reduced from about $208 billion in 1986 to a balanced budget in 1991. The decline in the deficit will be particularly sharp in 1987 when the target deficit is $144 billion, an estimated $64 billion decline from the previous year's level. After that, the target will decline by $36 billion per year. To the extent that discretionary tax increases and spending reductions fail to bring the estimated deficit down to the required level, changes in budget policy will be achieved by sequestration--that is, across-the-board reductions in specified defense and nondefense spending categories. There are provisions in the Balanced Budget Act making it possible for the Congress and the President to suspend sequestration temporarily in the event of a significant economic slowdown or an anticipated recession. 4/

While budget estimates are very sensitive to economic conditions, it appears that achieving the deficit targets would not only balance the budget but would also eventually eliminate the structural (or standardized-employment) deficit (see Table I-5 and Figure I-2). The structural deficit--the total deficit calculated at a constant unemployment rate of 6 percent--is projected to reach a record level of $162 billion in 1986, but to decline steadily thereafter to an approximate balance by 1991. The structural deficit falls from 4.0 percent of standardized GNP to zero over this period.

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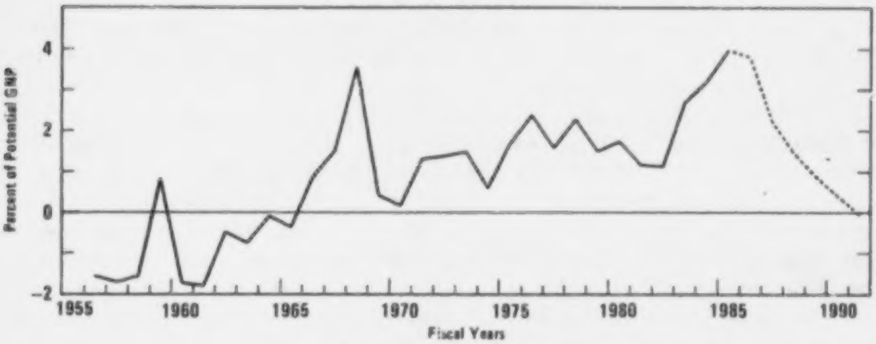
4. The new law and the effect of a recent court decision are discussed in Chapter III.

The new law would also reduce the ratio of the federal debt to GNP--a measure of the burden of the public debt (Figure I-2 and Table I-5). This ratio is projected to begin declining after 1987, the first sustained decline in over a decade. By 1991, the federal debt would drop below 35 percent of GNP, roughly offsetting the increase since 1983 but still substantially above the postwar low of about 25 percent.

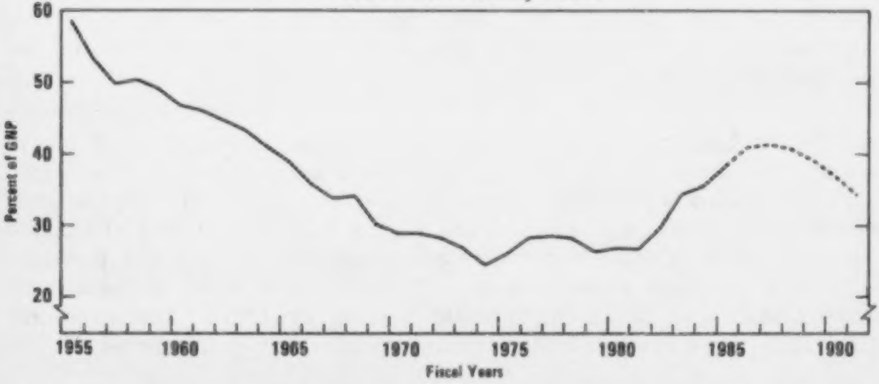
Figure I-2.

Measures of Fiscal Policy

Standardized Employment Deficit



Federal Debt Held by Public



SOURCES: Congressional Budget Office; Office of Management and Budget; U.S. Department of Commerce, Bureau of Economic Analysis.

NOTE: The values shown for the 1986-1991 fiscal years are based on the assumption that the deficit targets of the Balanced Budget Act will be met.

Long-Run Effects of Deficit Reductions. The gap between net domestic saving and net private domestic investment increased dramatically in the first half of the 1980s, as the rate of net private domestic saving fell while federal deficits soared. The difference was made up by rising net foreign investment in the United States, mirrored in record-breaking deficits in the balance of trade. In February 1985, CBO calculated that, if federal deficits

TABLE I-5. AGGREGATE MEASURES OF FISCAL POLICY
(Fiscal years)

Measure	1985	1986	1987	1988	1989	1990	1991
			Billions of Dollars				
Standardized Employment Deficit							
Baseline	161	162	140	128	118	107	103
Balanced-budget target a/	161	162	102	71	46	23	-1
Publicly Held Debt							
Baseline	1,510	1,720	1,900	2,064	2,207	2,326	2,429
Balanced-budget target	1,510	1,720	1,863	1,970	2,041	2,076	2,075
			Percent of GNP				
Standardized Employment Deficit b/							
Baseline	4.0	3.8	3.1	2.7	2.3	1.9	1.7
Balanced-budget target	4.0	3.8	2.3	1.5	0.9	0.4	0.0
Publicly Held Debt c/							
Baseline	38.4	41.0	42.2	42.7	42.3	41.4	40.2
Balanced-budget target	38.4	41.0	41.4	40.7	39.1	36.9	34.3

SOURCE: Congressional Budget Office.

a. Assumes full implementation of the Balanced Budget and Emergency Deficit Control Act of 1985.

b. Percent of standardized GNP.

c. Percent of GNP.

were to average 4.6 percent of GNP over the 1985-1990 period, net foreign investment would have to reach about 2.4 percent of GNP just to sustain a fairly modest level of net private domestic investment of 6.4 percent of GNP. 5/

The deficit targets contained in the Balanced Budget Act radically alter the outlook for savings and investment for the next six years (Table I-6). The deficit is now projected to average 1.9 percent of GNP. As a result, even with the net private domestic saving rate remaining at the relatively low level of the last five years, net private domestic investment could rise to 6.7 percent of GNP, near its 1950-1985 average, requiring net foreign investment in the U.S. of only 0.9 percent of GNP.

Earlier CBO reports and other studies discussed in detail the adverse long-run effects of persistent large deficits. 6/ That analysis implied that the reduction in government dissaving should have the following beneficial effects on the economy.

- As the deficit shrinks, the federal debt will grow more slowly. Eventually, the debt will decline relative to GNP. A lower federal debt/GNP ratio will allow more room for growth of private debt to finance capital formation, leading to higher productivity. The end result will be higher living standards for future generations than would otherwise be possible.

- Shrinking federal deficits will make the country less dependent on capital inflows from abroad. To the extent that foreign capital has financed government spending on consumption goods rather than productive investment, this will improve future domestic living standards by reducing debt service obligations to foreigners.

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5. This calculation was based on unrevised NIPA data. It assumed recovery of net private domestic saving to the level of 7.2 percent of GNP prevailing in the 1970s, with state and local surpluses remaining at their high plateau of 1.4 percent of GNP recorded in 1984. The revised NIPA data imply that, because of more net private domestic saving, a slightly higher rate of net private domestic investment could have been achieved with the same deficit figures and smaller net inflows of foreign savings. See *The Economic and Budget Outlook: Fiscal Years 1986-1990* (February 1985), Chapter III, pp. 79-113.

6. See, for example, *The Economic and Budget Outlook: Fiscal Years 1986-1990* (February 1985), Chapter 3, pp. 79-113; and Frederick Ribe and William J. Beeman, *Effects of the Fiscal Monetary Policy Mix on Long-Run Growth in an Open Economy*, forthcoming in the *Papers and Proceedings of the American Economic Association*, May 1986.

TABLE I-6. NET SAVINGS AND INVESTMENT FLOWS AS PERCENT OF GNP (NIPA basis)

Period	(1) Net Private Domestic Savings	(2) State and Local Surplus	(3) Federal Deficit	(4) Net Domestic Savings Available for Domestic Investment: (1) + (2)-(3)	(5) Net Private Domestic Investment	(6) Net Domestic Savings Shortfalls (5)-(4) = Net Foreign Investment
1950-1959	7.5	-0.2	-0.1	7.4	7.5	0.1
1960-1969	8.1	0.0	0.3	7.9	7.1	-0.8
1970-1979	8.1	0.8	1.7	7.1	6.9	-0.3
1980-1985	6.4	1.3	4.0	3.7	4.7	1.0
Average						
1950-1985	7.6	0.4	1.2	6.8	6.7	-0.1
1986-1991 a/	6.4	1.3	1.9	5.8	6.7	0.9

SOURCES: Congressional Budget Office; U.S. Department of Commerce, Bureau of Economic Analysis.

a. Net private domestic savings and state and local surplus are assumed for illustrative purposes to be at their averages for 1980-1985, while net private domestic investment is assumed to be at its 1950-1985 average. The federal deficit is calculated using the Balanced Budget Act targets and assuming the targets are met through spending or tax changes and not through asset sales or changes in lending programs. Columns 4 and 6 are calculated from the other figures.

- The reduction in capital inflows would allow the exchange rate of the dollar to depreciate further. This depreciation, in turn, would increase the competitiveness of U.S. goods on world markets, improving output and employment in manufacturing and other sectors that have been depressed for several years because of the high dollar.

- Shrinking deficits will sharply reduce the danger of explosive growth in federal interest payments and the stock of federal debt, far in excess of GNP growth. If this were to occur, it could leave little choice but to monetize a large part of the debt. Hyperinflation would then be almost inevitable.

- Even without an explosive increase in the debt, some believe that high deficits might induce the Federal Reserve to monetize a larger portion of the federal debt simply to prevent interest rates from being too high. While the evidence of a tendency to monetize debt is inconclusive, the mere possibility may nurture fears of inflation that keep interest rates higher than they would be otherwise.

- Finally, moving toward a balanced budget will restore a margin of safety should heavy deficit financing of government expenditures become necessary in a war or other national emergency.

Short-Run Effects of Deficit Reductions. While most people agree that a sizable reduction of budget deficits will have a long-term salutary effect on the economy, some analysts fear that such reduction, if done too abruptly, might temporarily weaken the overall economy. Reducing the deficit means reducing federal purchases and transfers and perhaps increasing taxes. Such actions would reduce demands of businesses and individuals whose incomes are reduced directly or indirectly by budget cuts. 7/ Curtailment of aggregate demand is likely to reduce output and employment in the short run if it is done too quickly. The greatest risk of a temporary slowdown in business activity appears to be in 1987, when the structural deficit is estimated to decline by $60 billion from the previous year's level, or by 1.5 percent of standardized GNP.

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7. These demand reductions could be relatively severe during the next few years because consumers' estimates of their long-term incomes and businesses' estimates of long-term demand for their products might be curtailed relatively sharply by the outlook for repeated federal budget reductions.

In the current situation, however, several factors are likely to mitigate these risks:

- Some analysts believe that any short-run economic weakening caused by federal budget cuts would be offset by the effect of anticipated multiyear deficit reductions in reducing long-term interest rates. In response to interest-rate declines, business investment and other types of interest-sensitive private spending should increase after some lag. In the current situation, investment spending may be accelerated because the interest-rate declines have come even before any budget cuts have been implemented. (See the interest-rate discussion in the next section.)

- As fiscal expansion is replaced by fiscal restraint, the trade balance should start improving after some lag. This should eventually help to offset any weakening of the economy.

- Some observers would add monetary policy to this list, believing that the Federal Reserve should raise the growth of monetary aggregates if the growth of nominal GNP begins to slacken as deficits are reduced. Others believe that the central bank should confine its role to ensuring that the money aggregates are kept growing at a steady pace, letting interest rates go where they will--very probably downward in the face of deficit reduction. Those favoring a more passive role for monetary policy often do so because they think that the aggregate demand effects of fiscal policy changes are very small or because they believe that economists are so ignorant of the relative strength of monetary and fiscal policy and the time lags with which they work that an activist monetary policy is as likely to do harm as good.

Consequences of Fixed Deficit Targets. The passage of the Balanced Budget Act means a dramatic change in the fiscal outlook, not only because it increases the probability that budget deficits will be significantly reduced, but also because it sets firm targets for several years to come. Advocates of such preannounced deficit targets (including a balanced budget) have maintained for years that deficits reinforce the tendency toward excessive growth of federal spending. The cost of debt-financed spending, they argue, is not readily apparent and tends therefore to be discounted by the electorate. The advantage of having deficit targets written into law, according to this view, is that spending initiatives that push the deficit above the mandated target have to be financed with tax increases, and policymakers are reluctant to raise taxes. Thus, deficit targets may impose tighter discipline on budget decisions.

Opponents of fixed deficit targets have stressed that the targets will have the undesirable effect of eliminating the automatic stabilizing effects of cyclical deficits. Deficit increases that result automatically from a slowdown in economic growth are known as "automatic stabilizers" because they help stimulate private spending and cushion the economic slowdown. Firm adherence to deficit targets would do away with the automatic stabilizers. Indeed, the adverse consequences of an economic shock--such as a sudden decline in foreign demand for U.S. exports--could be magnified by a commitment to reduce deficits. It should be noted, however, that the Balanced Budget Act does make it possible for the Congress and the President to suspend the mandated cuts temporarily if a serious slowdown is under way or if a recession is foreseen.

Uncertainties in the Fiscal Policy Outlook. Some observers doubt that the deficit targets of the Balanced Budget Act will be achieved. These doubts arise from the constitutional challenges to the act and the extraordinary magnitude of the required deficit reductions. This skepticism may be keeping long-term interest rates from falling as much as they might have. Moreover, even assuming that the deficit targets will be met, it is not yet known how this will be done. The targets could be met in part through tax increases, or by sequestration. Lack of knowledge about the likelihood, magnitude, and nature of such future policy changes can have an unsettling effect on private decisions to save and invest. Finally, deficits could be reduced by selling federal assets such as Conrail or the Bonneville Power Administration, as the Administration has proposed. But because budget transactions of this sort represent only a change in the ownership of existing assets, they do not have the same effect on aggregate demand as reductions in spending or increases in taxes.

Financial Markets and Monetary Policy

Both long- and short-term interest rates have generally been falling since mid-1984. This prolonged decline, which has left rates at levels not seen since 1980, has reflected a continuingly expansive monetary policy together with lessening credit demands that result from sluggish economic growth.

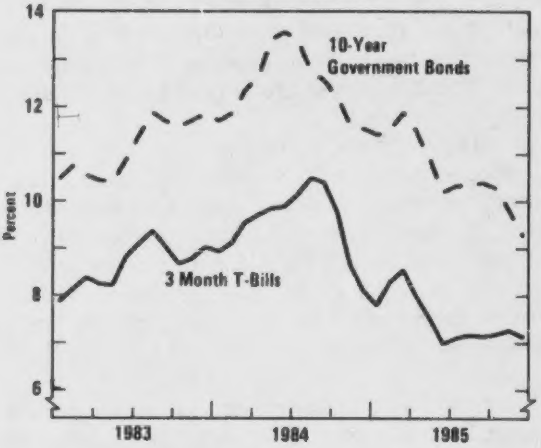
More recently, as financial markets began to reflect changes in federal deficit policy, long-term rates have dropped sharply both in absolute terms and relative to their short-term counterparts. Long-term rates fell about 100 basis points between late October and the end of 1985, while short-term rates dropped by only about 15 basis points. The sharp decline in long-term rates has significantly flattened the yield curve and, along with developments in futures markets, it suggests that market participants expect relatively flat short-term rates through the middle of 1986 at least (see Figure I-3).

Bond prices rose almost 20 percent in 1985, paralleling a significant upturn in stock prices. The Standard and Poor's 500 index rose 26.3 percent during 1985, with much of the change coming in the latter part of the year (see Figure I-4). The stock market rally has added significantly to consumers' wealth. This increase in wealth may in part be responsible for the continued underlying strength in consumer spending.

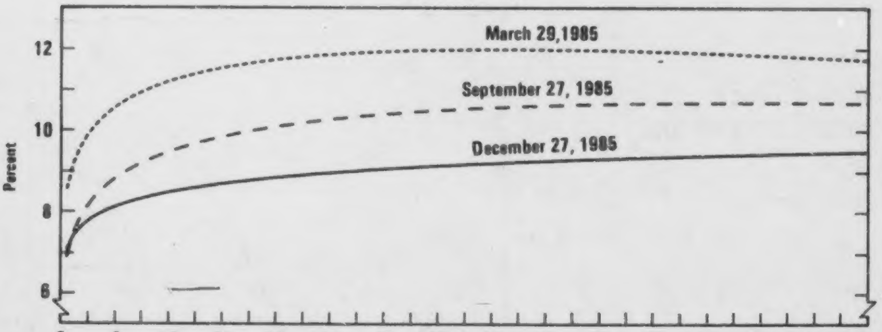
Figure I-3.

Recent Short- and Long-Term Interest Rate Movements

Interest Rates



Yield Curves*



SOURCES: Congressional Budget Office; Federal Reserve Board.

*These curves were fitted to weekly average yields on Treasury instruments using a logarithmic function described by Bradley and Crane in the *Journal of Bank Research*, Spring 1973. The curves were then smoothed by hand.

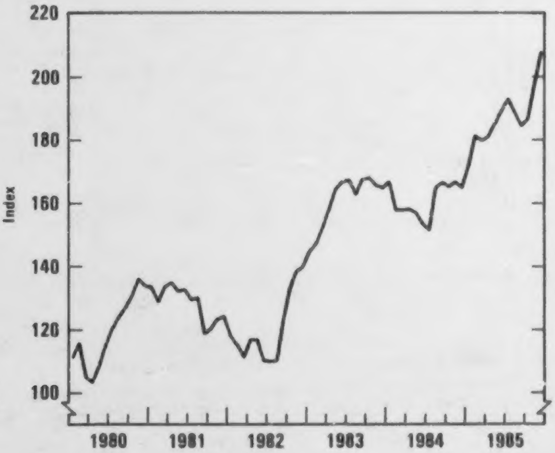
The stock and bond markets could fall sharply if it appeared that the deficit targets in the Balanced Budget Act were not likely to be met. The resulting decline in consumer wealth and the rise in long-term interest rates could place the economic expansion at risk.

Credit Demands. As shown in Table I-7, growth of nonfinancial-sector debt slowed slightly in the third quarter of 1985 (the most recent quarter for which data are available). The slowdown in corporate-sector debt occurred despite a continued surge in mergers. The growth in household debt rose slightly, reflecting continued increases in mortgage and consumer installment credit. The modest slowing in the growth of public-sector debt resulted entirely from federal operations; growth in state and local government debt rose to an annual pace of more than 26 percent.

This surge in state and local debt is not expected to continue in 1986. It appears partly to have been the result of expectations that tax legislation would be passed limiting the tax-preferred status of some state and local debt, to be effective in early 1986. (In fact, no such legislation was passed.) Although federal funding needs in the near term will remain large by historical standards, the Balanced Budget Act is expected to reduce future borrowing sharply. In addition, an expected slowing in merger-related financing should restrain the growth in corporate debt.

Monetary Policy. According to most indicators, monetary policy was expansionary during 1985, as Table I-8 and Figure I-5 show. Strong growth occurred in all of the monetary and reserve aggregates: M1, M2, M3, total

Figure I-4.
Common Stock Prices (Standard and Poor's "500")



SOURCES: Congressional Budget Office; Standard and Poor's Corporation.

reserves, and the monetary base. The only suggestion of monetary restraint came in the slight widening of the spread between the federal funds rate and the discount rate that occurred late in the year.

As measured by M1, monetary policy has been especially stimulative (Figure I-5). After growing at almost a 13 percent annual pace over the first nine months of last year, M1 fell briefly in October but resumed its rapid rise in subsequent months. This growth left M1 in December about $15 billion above the upper bound of the Federal Reserve's target range as revised in July, and $29 billion above the target range established a year ago. On the other hand, M2 and M3 grew much more modestly. After a brief surge above their target ranges in early 1985, both aggregates dropped within their ranges by mid-year, and have remained relatively on course since then. M2 is currently near its upper bound, and M3 is near the middle of its range.

More than one explanation has been offered for the differences in behavior among the money measures. One is that the declining interest-rate spreads between checkable accounts and other deposits have caused investors to shift funds from savings accounts and money market mutual funds into checkable deposits. Another widely cited explanation is that holdings of corporate demand deposits have increased in the wake of last year's check-kiting scandal as firms have tried to avoid any appearance of similar wrongdoing.

TABLE I-7. GROWTH RATES OF CREDIT MARKET DEBT, NONFINANCIAL SECTORS (Seasonally adjusted annual rates of change, in percents)

	1984		1985		
Sector	III	IV	I	II	III
Total Debt	11.5	15.2	10.7	11.8	11.4
Private	10.0	13.3	10.5	10.0	10.0
Corporate	11.6	18.2	10.9	9.0	7.1
Household	11.8	13.3	12.6	12.6	13.2
Foreign	-15.0	-0.2	-3.3	-2.5	2.4
Other	11.4	9.7	8.3	8.4	8.2
Public	15.1	19.9	11.5	16.3	14.8
Federal	15.4	19.4	10.5	15.4	11.3
State and local	14.0	21.5	14.8	19.2	26.1

SOURCE: Federal Reserve Board.

The interpretation of monetary policy has also been complicated by a mystery that affects all three of the monetary aggregates: intermittent but steep declines in velocity below its long-run trend. (Velocity is the ratio of GNP to the money stock.) While the drop in velocity is most evident with respect to M1, the M2 and M3 velocities are also low relative to their respective trends (see Figure I-6). These declines in velocity were not predicted, nor have they been successfully explained. As a result, the usefulness of the monetary aggregates in formulating or interpreting monetary policy has been at least temporarily undermined.

Previous CBO analyses have suggested that the decline in velocity in 1981-1983 may have partly reflected several factors: an increase in precautionary balances during the recession; the sharp drop in inflation and interest rates; and an increase in the interest sensitivity of M1 brought about by deregulation of interest on deposits. The more recent velocity drop in 1985 can be explained in part by a further decline in interest rates, and by an increase in transactions that require increased money balances but do not contribute to GNP: a rise in imports relative to domestic production, and an increase in transactions involving financial assets. Unfortunately, while all of these explanations have merit, quantitative studies suggest that they leave much of the decline in velocity unaccounted for.

TABLE I-8. SELECTED MONETARY POLICY MEASURES
(Seasonally adjusted annual rates of change, in percents, unless otherwise noted)

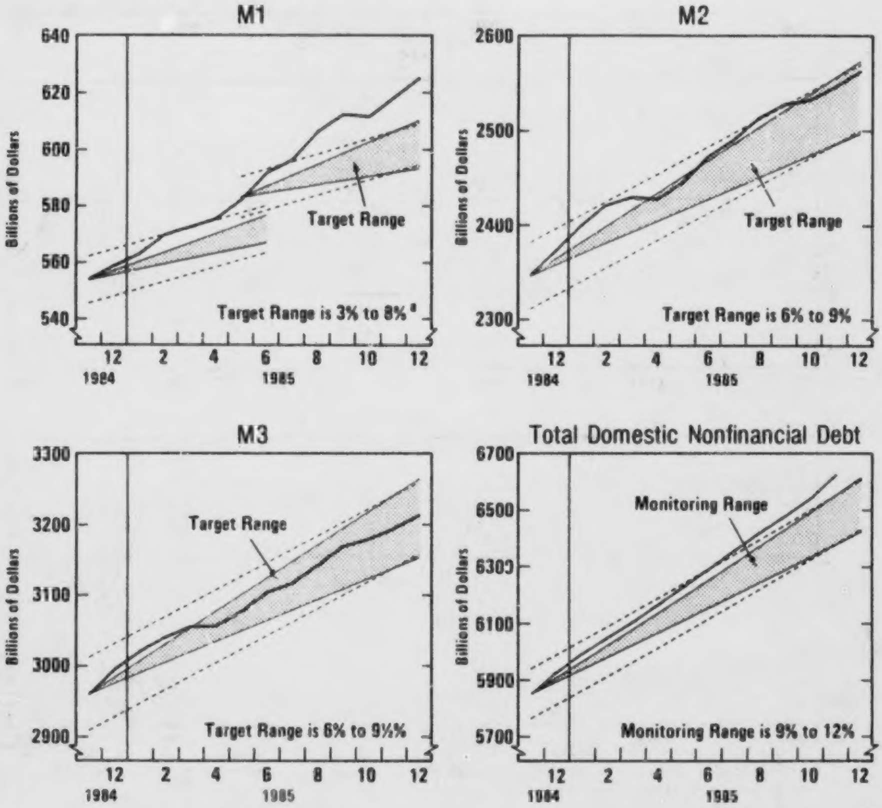
Time Period	Money Base Growth	Total Reserve Growth	Seasonal and Adjustment Borrowings (millions of dollars) a/	Federal Funds Rate-Discount Spread (percentage points) a/
1985:I	8.4	18.6	460	0.48
1985:II	7.7	12.8	593	0.15
1985:III	10.6	17.4	591	0.40
1985:IV	8.7	12.6	858	0.60
October	6.2	4.0	527	0.49
November	10.6	21.9	1,413	0.55
December	9.7	24.2	633	0.77

SOURCE: Federal Reserve Board.

a. Not seasonally adjusted.

Partly because of these issues, there have been signs that the Federal Reserve was adopting a flexible approach to its targets, especially the M1 growth range. Officials of the central bank indicated in Congressional testimony and reports that they were evaluating policy in the light of economic growth, inflation, and the exchange rate of the dollar. Tentative 1986 targets announced in July were a range of 4 percent to 7 percent for M1 growth and ranges of 6 percent to 9 percent for the growth of M2 and M3. The tentative range for the growth of total nonfinancial domestic debt

Figure I-5.
Money Growth and Targets in 1985



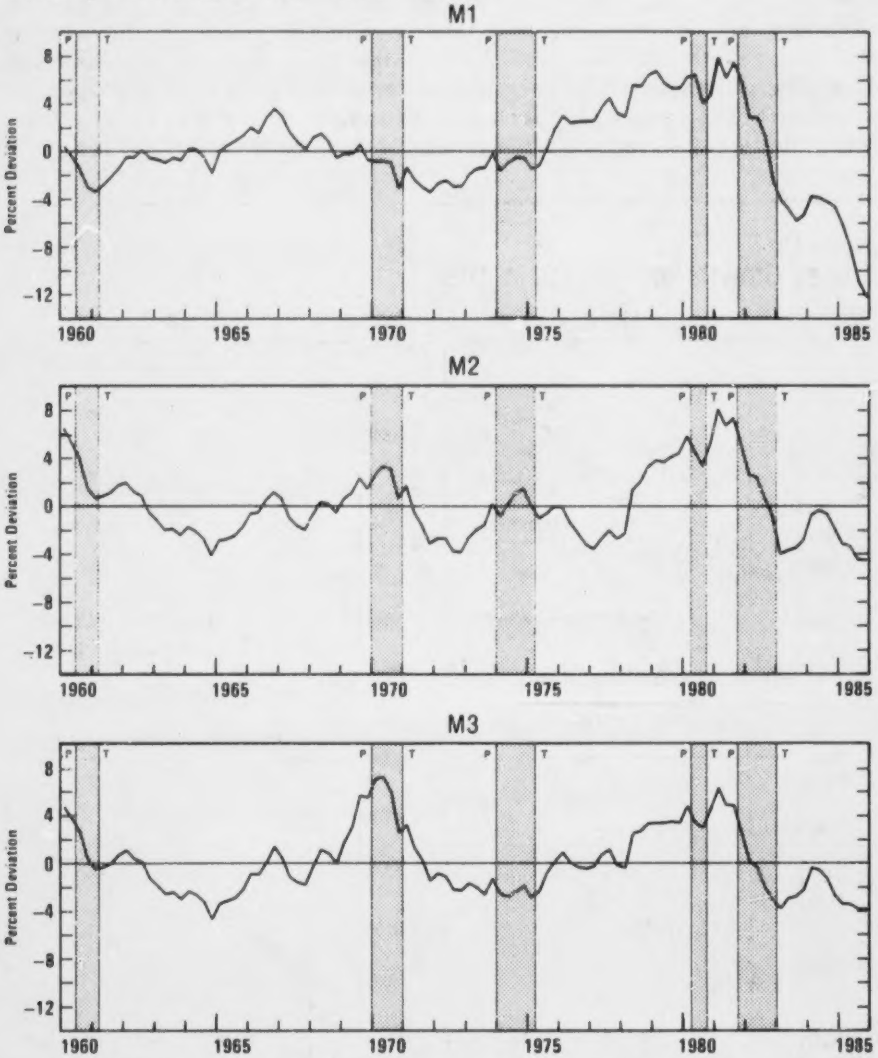
SOURCES: Congressional Budget Office; Federal Reserve Board.

NOTE: Dotted lines refer to growth bands that the Federal Reserve Board considers consistent with its targets.

[a] The initial target range for M1 was 4 percent to 7 percent; this range was widened to 3 percent to 8 percent in May and rebased.

Figure I-6.

Velocity: Deviations from Trend Level



SOURCES: Congressional Budget Office; Federal Reserve Board; U.S. Department of Commerce, Bureau of Economic Analysis.

NOTE: Velocity is the ratio of GNP to money.

was set at 8 percent to 11 percent. The official announcement of the central bank's objectives for 1986 is expected in Congressional testimony on February 19, 1986.

Stress in the Financial Markets. Despite falling interest rates in 1985, failures among thrift institutions continued, and the year saw a record number of bank failures. Crises in Ohio and Maryland served to highlight the vulnerability of state- and privately-insured institutions compared with those covered by federal deposit insurance. Although the decline in long-term interest rates has dramatically improved the net worth of thrift institutions, they remain very sensitive to interest-rate movements. Moreover, many are still plagued by poor assets in their portfolios. Even the Federal Savings and Loan Insurance Corporation, the government insurer, has been beset by net worth problems and has suggested a recapitalization scheme to the Congress.

Weakening energy and agricultural prices have caused problems for many banks with loans to these sectors, and for the Farm Credit System. About 40 percent of the banks on the FDIC's "watch list" are agricultural banks. Recent legislation has attempted to ensure a continued flow of credit to the troubled farm sector, but a rise in interest rates would make the rescue plan more costly.

Finally, many banks are burdened by loans to some third-world countries whose deteriorating trade balances make them less able to service their debts. The Administration's concern over this problem resulted in the so-called "Baker initiative," which calls for increased commercial bank and official development loans ($20 billion from the commercial banks and $9 billion from development banks) to major third-world debtor countries in exchange for their promises of internal reforms designed to promote long-term economic growth.

RECENT ECONOMIC DEVELOPMENTS

Economic expansion slowed in 1985 from its strong pace of the previous year. Employment grew strongly, however, and inflation seemed to subside. Oil prices, the exchange rate, and long-term interest rates fell sharply. These developments, together with evidence of a pickup in economic activity late in 1985, appear to signal improved prospects for growth in coming months.

Aggregate Economic Activity

Real GNP growth was 2.3 percent during 1985, down sharply from the 6.6 percent pace of the previous year (see Table I-9). Industrial production grew only 2.2 percent in 1985 compared with 11.6 percent the previous year.

Capacity utilization was essentially unchanged. Final sales and real final sales to domestic purchasers both grew more strongly than did GNP, reflecting the fact that businesses were reducing their inventory/sales ratios and the fact that the balance-of-trade deficit was continuing to grow, channeling domestic purchasing power to foreign producers.

Employment grew quite strongly over the course of 1985 and the first weeks of 1986, reducing the unemployment rate to 6.7 percent in January of this year, its lowest level since March 1980. The strong growth in employment was, however, a reflection of disappointing productivity growth in 1985.

TABLE I-9. REAL GNP AND INDUSTRIAL PRODUCTION (Percent change from previous period at annual rates, unless otherwise noted)

Economic Indicator	1984	1985	1985 I	1985 II	1985 III	1985 IV
Real GNP	6.6	2.3	3.7	1.1	3.0	2.4
Final sales	4.5	4.0	6.2	1.2	5.0	2.1
Personal consumption	4.4	3.2	4.8	2.6	4.6	-0.2
Business fixed investment	19.5	9.6	-0.5	12.5	2.4	10.3
Residential investment	13.2	1.9	1.7	7.1	8.5	8.6
Government purchases	4.3	5.8	-1.4	4.7	18.2	7.0
Exports	6.2	-2.9	-8.8	-10.9	-5.1	8.0
Imports	22.8	2.1	-27.6	18.2	12.8	13.0
Inventory Change (billions of 1982 dollars)	62.7	7.3	15.8	15.1	-1.8	0.1
Net Exports (billions of 1982 dollars)	-85.0	-105.1	-71.8	-101.1	-119.8	-127.6
Real Final Sales to Domestic Purchasers a/	6.4	4.5	2.7	4.5	7.0	2.9
Industrial Production	11.5	2.2	2.3	1.3	1.9	1.3
Consumer durables	14.2	0.2	1.4	-4.2	3.3	4.0
Business equipment	16.9	4.7	3.2	3.8	2.0	-2.2
Defense and space	10.4	10.0	8.0	10.9	9.7	12.1

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Federal Reserve Board.

a. Real final sales minus net exports.

Late in the year, several short-term indicators showed signs of a speedup in GNP growth. Retail sales and housing starts rose sharply in December, and oil prices fell sharply both in December and again after the turn of the year. Employment continued its strong growth during the fourth quarter. All these factors increase the likelihood that economic expansion may speed up somewhat in 1986.

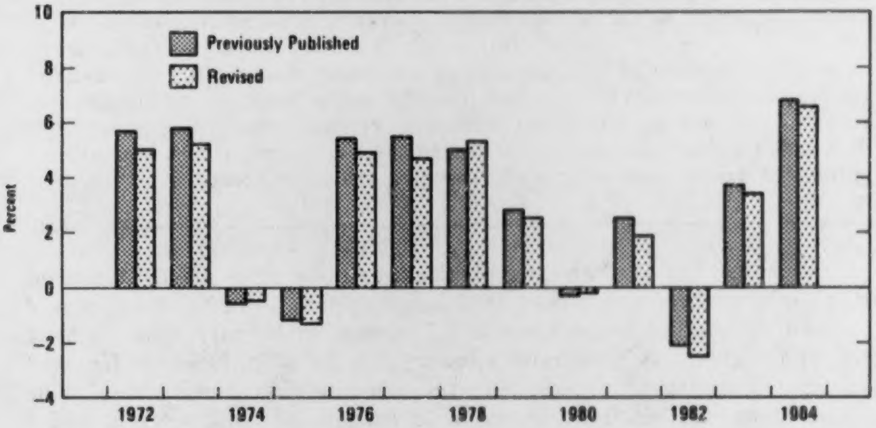
In December, the Commerce Department released major benchmark revisions of the national income accounts (see Box I-1). Periodic revisions are needed to incorporate improved estimating procedures and new information (such as new evidence on the size of the "underground" economy) that had previously been excluded from the official accounts. Analysis of how the revisions change the picture of the economy's performance since the early 1970s is only just beginning. Some of the major effects in particular sectors are described later in this chapter.

Labor Markets

Labor markets strengthened considerably last year. Nevertheless, unemployment remained high in 1985, particularly among blacks. Wage increases were moderate, and productivity growth slowed.

Figure I-7.

Real GNP Growth Rates: Before and After Benchmark Revisions



SOURCES: Congressional Budget Office; U.S. Department of Commerce, Bureau of Economic Analysis.

BOX I-1

REVISING THE NATIONAL INCOME ACCOUNTS

The Commerce Department's recent release of revised National Income and Product Account (NIPA) estimates contains a number of significant changes, even though the nominal GNP growth rates are essentially the same as shown by the old data. The revisions incorporate new data sources, better estimating methods, changes in definitions, and the rebasing of price indexes from 1972 to 1982.

In rebasing, the prices of 1982 rather than those of 1972 are used as the basis for calculating the constant dollar series, and the composition of output in 1982 is used for calculating fixed-weighted price indexes. This makes the new NIPA figures more relevant for measuring recent changes in real output and prices.

Virtually all NIPA data are collected in current dollar terms. To measure changes in real (constant dollar) values, the nominal data are "deflated" by the price index. Because rebasing can dramatically change the relative levels of the price indexes, relationships among the constant dollar series for different items in the accounts can be affected by the rebasing. For example, before the revision the price deflator for personal consumption expenditures for gasoline and oil was 356 in 1982, and the deflator for autos and parts was 191. Dividing the nominal data for these categories of spending by their respective deflators resulted in estimates of real (1972 dollars) expenditures of $25.0 billion on gasoline and oil and $57.0 billion on autos and parts. With rebasing, the price indexes for all categories are set to 100 in 1982. The nominal values are not generally changed as part of the rebasing process, so the same nominal values are divided by the new indexes. This results in a real (1982 dollars) value for autos of $108.9 billion in 1982, and for gasoline and oil of $89.1 billion. Whereas the previous data would lead one to believe that real expenditures on autos and parts in 1982 were more than two times those on gasoline and oil, the revised data indicate that gasoline and oil expenditures consumed almost the same percentage of consumers' dollars as did spending on autos and parts.

Unemployment. The civilian unemployment rate stayed at about 7¼ percent during the first three quarters of 1985 before edging down to an average of 7.0 percent in the last quarter and to 6.7 percent in January 1986. Among demographic groups, jobless rates continued to be slightly lower for men than for women (in the recession, the opposite had been true). The unemployment rate continued at about 15 percent for black workers and 6 percent for white workers--roughly the same as in 1984 (see Table I-10). Black teenagers continued to suffer by far the highest unemployment of any

The increased "weighting" of the GNP components that have risen more in price since 1972, shown by this example, is a general characteristic of rebasing. It leads to downward revisions in year-to-year real growth rates because, in general, the growth in demand (and consequently the growth in levels of production) for goods that increase more in price will be slower than for goods that have lower rates of inflation. By increasing the weighting of these very categories of goods, rebasing causes the measured growth of real output to be revised downward. Comparisons of previously published and revised data on real values are confused by this aspect of rebasing. The revised data do, however, provide a more accurate reflection of recent year-to-year changes in real economic activity than do the previously published figures.

The average annual growth rate of nominal GNP for the 1972-1984 period was not changed by the revision, remaining at 9.9 percent. The average growth of real GNP for that period, however, was revised down from 2.7 percent to 2.5 percent (see Figure I-7). When the effects of rebasing on the measured growth rate are removed by using 1972 weights, however, the revision actually raises the average real GNP growth rate for the 1972-1984 period to 2.9 percent.

The major factors contributing to the upward revision of real growth when the rebasing effect is eliminated are the use of a new deflator for computers, improved adjustments for unreported income (which affects estimates of both the income and product components of GNP), and revisions in residential investment. The sharp downward revision in the growth rate of the deflator for computers translates into higher real growth rates for durable equipment, exports, and federal purchases of goods and services. The use of the new deflator for computers is also a major reason for a downward revision in the rate of inflation as expressed by the fixed-weight GNP price index.

The GNP shares of two income categories were radically changed by the revision. Proprietors' income was revised upward by about 2 percent of GNP because of the new estimates of misreported income and the rental income share fell from 1.5 percent to 0.2 percent of GNP. These new estimates are a major reason for a general upward shift in the saving rate of about half a percentage point. In spite of the upward shift, the historical pattern of the movements in the saving rate, including its recent decline, was not changed by the revision.

major group: at approximately 40 percent, their unemployment rate was about the same as in 1984, though somewhat lower than the level of nearly 50 percent that it had reached in 1983, just after the end of the last recession.

The labor market showed signs of strength during the last months of 1985, as Table I-10 indicates, and in January as well. Unemployment fell one-tenth of a percent in November and in December, and another two-

TABLE I-10. EMPLOYMENT AND UNEMPLOYMENT (Percent change from previous period at annual rates, unless otherwise noted)

				1984				1985			
	1983	1984	1985	I	II	III	IV	I	II	III	IV
Payroll Employment											
Nonfarm	0.7	4.7	3.4	5.5	4.3	3.9	4.0	3.3	2.9	2.6	3.5
Goods-producing	-2.0	6.0	1.3	8.0	4.6	3.0	1.8	1.7	-0.3	-1.1	1.8
Service-producing	1.7	4.3	4.2	4.6	4.1	4.2	4.8	3.9	4.1	3.9	4.1
Civilian Employment	1.3	4.1	2.0	4.2	5.3	1.3	2.3	2.5	0.7	1.5	3.0
Civilian Unemployment											
Rate (percent)	9.6	7.5	7.2	7.9	7.5	7.4	7.2	7.3	7.3	7.2	7.0
Adult males	8.9	6.6	6.2	7.0	6.6	6.5	6.2	6.3	6.3	6.1	6.0
Adult females	8.1	6.8	6.6	7.0	6.7	6.8	6.7	6.7	6.8	6.7	6.4
Whites	8.4	6.5	6.2	6.8	6.5	6.4	6.2	6.3	6.3	6.2	6.0
Blacks	19.5	15.9	15.1	16.7	16.0	15.8	15.1	15.5	15.0	14.8	15.1
Teenagers	22.4	18.9	18.6	19.6	18.9	18.7	18.3	18.5	18.3	18.3	19.0
Black teenagers	48.4	42.7	40.1	45.4	42.4	42.2	41.0	41.7	39.7	38.4	40.7
Employment-to-Population Ratio (percent)	57.9	59.5	60.1	59.0	59.6	59.7	59.8	60.0	60.0	60.1	60.3

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

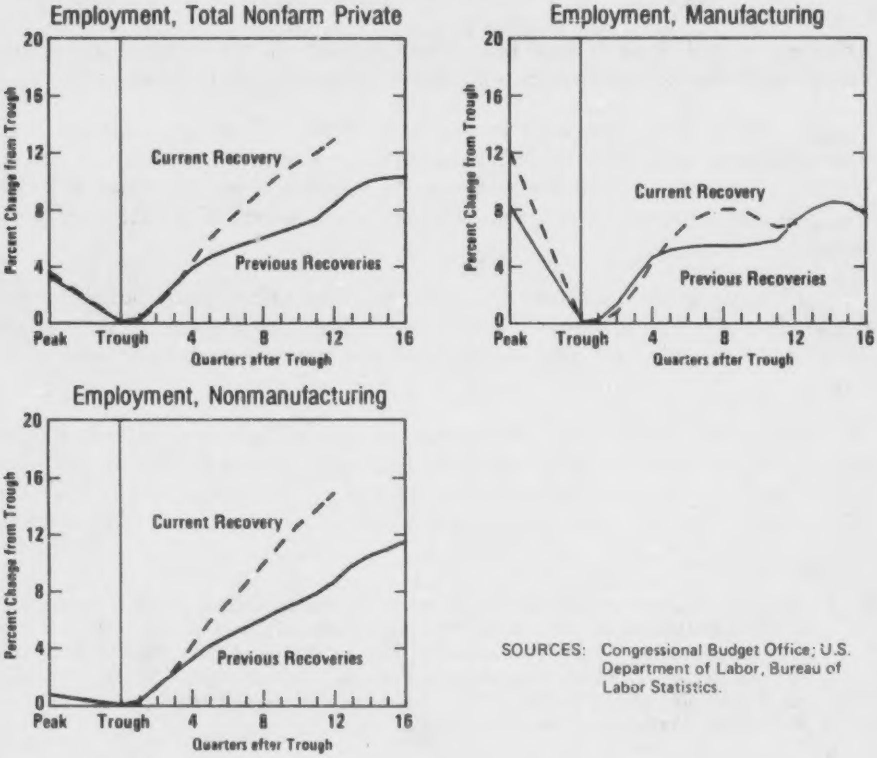
NOTE: Nonfarm payroll employment is measured by a survey of business establishments. The civilian employment and unemployment rates cited are based on a survey of households.

tenths in January; the ratio of employment to population reached a new high. Nonfarm payroll employment grew strongly in December and January. Employment in the goods-producing sector, which had been stagnant during the second and third quarters, grew at a 1.8 percent annual rate in the last quarter. (By contrast, service employment grew steadily throughout the year at a 4 percent rate.) Modest employment gains were widespread across industries. In December and January, about two-thirds of all industries were reporting employment gains. The average workweek in manufacturing--a barometer of changes in labor demand--rose to 41.0 hours in December from 40.7 in November. Overtime hours in manufacturing also edged up to 3.6 per week from 3.4 in November.

Employment growth in this recovery has been considerably stronger than for the average recovery in the postwar period (see Figure I-8). The

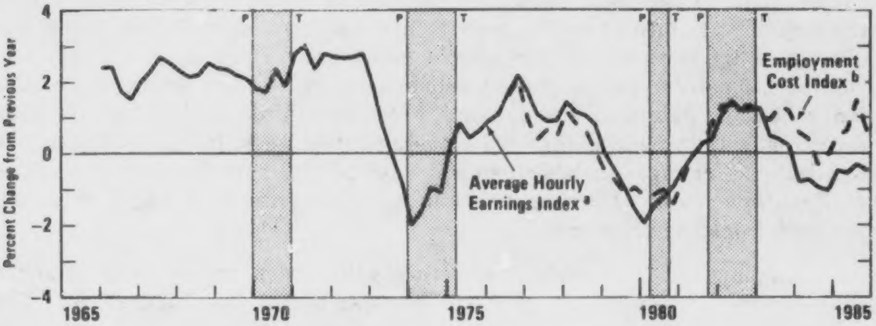
Figure I-8.

Cyclical Comparisons of Employment Growth



SOURCES: Congressional Budget Office; U.S. Department of Labor, Bureau of Labor Statistics.

Figure I-9.
Real Wages



SOURCES: Congressional Budget Office; U.S. Department of Labor, Bureau of Labor Statistics.

NOTE: The Employment Cost Index begins in the mid-1970s.

[a] Average hourly earnings index for nonfarm private industry, deflated by the fixed-weight personal consumption price index.

[b] Employment cost index for wages in the nonfarm private economy, deflated by the fixed-weight personal consumption price index.

unusually rapid growth has been concentrated in the nonmanufacturing sector; employment growth in manufacturing has been about average.

Wages. Gains in wages were moderate in 1985, reflecting continued high unemployment and subdued inflation. At more than 7 percent, the unemployment rate was substantially above the roughly 6 percent rate at which many analysts expect labor markets to become a source of inflationary pressures. 8/

Finally, small increases in food and fuel prices contributed to the moderation of wage increases. As shown in Figure I-9, gains in real wages have been unusually low, and according to one measure they have been negative.

Collective bargaining settlements in general showed extremely low wage gains in 1985. Major bargaining contracts provided average wage adjustments of 2.3 percent in the first year and 2.7 percent annually over the life of the contract (not including all potential increases from cost-of-

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8. This level is often estimated at between 6 percent and 6.5 percent, which is higher than it was in the 1950s and 1960s in part because women and young workers, who now form a larger part of the labor force, tend to have to spend a larger proportion of their time in job searches than do adult males, more of whom have settled jobs. As the baby boom bulge of people entering the labor force slows down, the level of unemployment consistent with constant inflation is likely to be lower.

living provisions). The last time the same parties bargained (generally two to three years ago), average adjustments were 3.9 percent the first year and 3.7 percent a year over the contract life. Contrary to experience before the 1980s, many contracts were "back-loaded"--that is, they had lower wage adjustments in the first year than in subsequent years.

As shown in Table I-11, the Employment Cost Index grew at a 4 percent to 5 percent rate during 1985, moderately less than in 1984. For the year ending in December 1985, compensation cost increases were almost one percentage point below those of a year earlier (4.3 percent versus 5.2 percent). A deceleration in employee benefit costs was largely responsible for the slowdown in compensation cost increases. The aggregate index masked divergent trends, however. Reflecting differences in labor-market conditions, growth in compensation was faster for workers in service-producing industries than for those in the goods-producing industries and faster for nonunion than for union workers. By occupational groups, the gains of service workers and white-collar workers outstripped those of blue-collar workers.

Productivity. Increases in output per worker hour slowed dramatically in 1985. In 1983 and the first half of 1984, gains in productivity had been quite rapid, though about average for an early recovery period. As the economic expansion slowed, however, productivity growth in the nonfarm business sector disappeared. Productivity growth in manufacturing also slowed sharply in 1985, but it continued at a faster pace than for the nonfarm sector as a whole. During the three years since the beginning of recovery, productivity growth in the nonfarm business sector as a whole was about average for the first six quarters, but it has been far below average for the next six (Figure I-10). Productivity growth in manufacturing appears slightly better than average, but the productivity performance in the rest of the nonfarm business sector appears very poor. It should be noted, however, that data on recent productivity trends in this sector, and to a lesser extent in manufacturing, are subject to wide margins of error.

Inflation

Inflation has not increased in the three years since the last recession, in contrast to the pattern in most postwar recoveries. Recently many commodity prices have grown weakly or have actually fallen. Wages, a source of inflationary pressure in the past, have shown only moderate gains. As a result, inflation in 1985 was somewhat less than that in 1984, as reflected in the fixed-weight GNP deflator (a broad measure of prices for goods and services produced in the United States) and the Consumer Price

TABLE I-11. COMPENSATION, PRODUCTIVITY, AND UNIT LABOR COSTS
(Percent change from previous year or from four quarters ago)

				1984				1985			
	1983	1984	1985	I	II	III	IV	I	II	III	IV
Hourly Earnings Index	4.6	3.4	3.0	3.6	3.5	3.4	3.1	3.1	3.1	2.9	3.0
Employment Cost Index	6.1	5.4	4.6	5.8	5.5	5.1	5.2	4.8	4.6	4.9	4.3
Union workers	6.7	4.6	3.1	5.3	4.9	4.1	4.3	3.5	3.1	3.2	2.6
Nonunion workers	5.7	5.5	4.9	5.8	5.7	5.2	5.2	4.9	4.9	5.4	4.6
Goods-producing industries	5.4	4.6	4.0	4.7	4.6	4.4	4.7	4.6	4.2	4.0	3.4
Manufacturing industries	5.6	4.9	4.3	4.8	4.9	4.7	5.2	5.1	4.6	4.2	3.3
Service-producing industries	6.5	6.0	5.0	6.5	6.3	5.5	5.6	4.9	4.8	5.5	4.8
Blue-collar workers	5.5	4.4	3.7	4.8	4.4	4.2	4.4	3.8	3.8	4.0	3.3
White-collar workers	6.5	5.9	5.2	6.3	6.3	5.4	5.6	5.3	5.1	5.4	4.9
Service workers	6.0	6.5	4.6	6.7	6.1	6.8	6.5	4.8	4.8	5.1	3.9
Compensation per Hour a/	4.7	3.7	3.7	3.5	3.6	4.0	3.8	3.7	3.8	3.6	3.7
Output per Hour a/	3.4	1.6	0.0	2.6	1.7	1.2	0.8	0.2	-0.3	0.1	-0.1
Unit Labor Cost a/, b/	1.3	2.0	3.7	0.9	1.8	2.7	2.9	3.5	4.1	3.5	3.8

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

a. Nonfarm business sector.

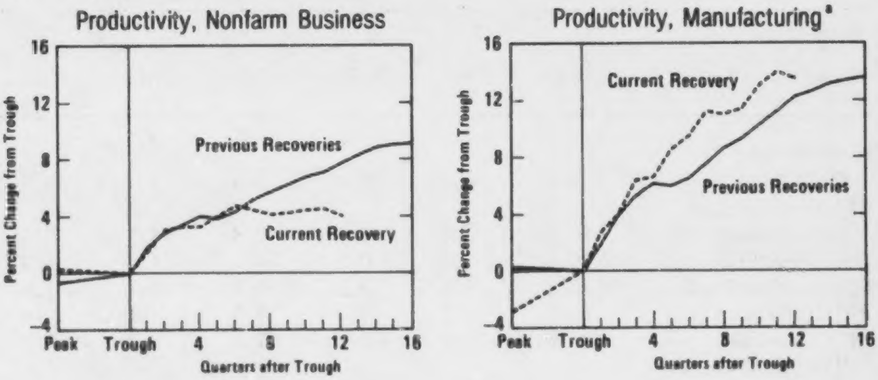
b. The index of unit labor cost is calculated by dividing the index of compensation per hour by the index of output per hour.

Index (a measure of prices paid by consumers that includes prices of imported goods). Excluding changes in prices of food and energy, inflation in final-goods prices has risen moderately in the past two years (see Table I-12).

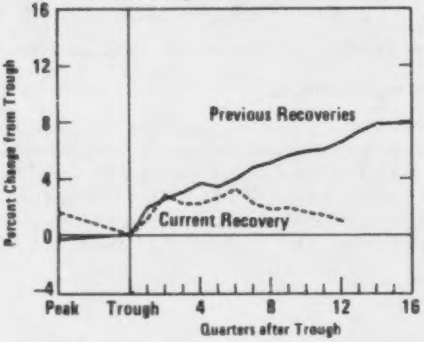
The rate of inflation was lower on average in the last half of 1985 than had been expected--the result of falling prices of food, energy, and used cars. Some prices began to increase more rapidly in recent months, but mostly for special reasons that are not expected to persist. Thus, meat prices were low for most of the year because of temporary increases in slaughter rates that are now coming to an end. On average, however, the price of food purchased by consumers to eat at home increased by only 2.1 percent over the 12 months of 1985. Oil prices also increased temporarily in

Figure I-10.

Cyclical Comparisons of Productivity Growth



Productivity, Nonmanufacturing*



SOURCES: Congressional Budget Office; U.S. Department of Labor, Bureau of Labor Statistics.

[a] Productivity measures for manufacturing and nonmanufacturing in the last four quarters are subject to large revisions. Nonmanufacturing productivity, which is based on unpublished data, is especially uncertain for those quarters.

the fall, the result of low oil inventories at the beginning of the heating season in the United States and Europe. As a result, the CPI increased somewhat faster during the last three months of the year than it had from May through September. (The sharp oil price declines late in December occurred too late to affect 1985 inflation significantly.)

The outlook for inflation in the next year is highly uncertain. Some developments could lead to much lower inflation:

o Oil prices have fallen dramatically in recent weeks and in early February were about 46 percent below what they were in November. In coming months, these declines could significantly reduce the growth of the CPI, and, to a lesser extent, that of the GNP deflator.

TABLE I-12. INFLATION (Percent change, fourth quarter to fourth quarter)

Price Measure	1980	1981	1982	1983	1984	1985
Fixed-Weight GNP Deflator	9.8	8.5	5.0	3.8	4.2	3.5
CPI for All Urban Consumers a/	10.9	8.8	5.3	3.6	4.1	3.5
Stripped CPI b/	9.4	8.6	6.2	4.1	4.5	4.7
PPI Finished Goods	12.3	7.2	3.5	0.8	1.7	1.6
PPI Crude Materials	14.2	-2.6	-0.8	4.3	-1.1	-5.9
PPI Crude Oil	33.5	30.2	-7.3	-7.5	-2.5	-5.7
PPI Refined Petroleum Products	28.2	13.6	-6.0	-9.3	-4.6	-2.0
CPI for Food at Home	10.7	3.7	2.5	1.4	3.8	1.4
CPI for Energy	18.9	12.6	1.9	-1.7	0.3	0.9

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

a. The Consumer Price Index (CPI) is published in two versions: the CPI-U for all urban consumers, shown here, and the CPI-W for urban wage and clerical workers, shown in the projections in Table I-3. Before 1983, both measures used a flawed measure of the cost of homeownership; this was corrected in 1983 for the CPI-U, reported here, and in 1985 for the CPI-W. The CPI growth rates for 1980-1982 reported here are those of an experimental CPI measure that approximates the current CPI treatment of homeownership.

b. CPI less food at home, energy, and used cars.

- o Other commodity prices, especially for agricultural commodities, remain weak, and prices for some crops are expected to fall this year.
- o Wage gains have been moderate, as explained earlier.

Other important developments, however, point to a possible increase in the inflation rate:

- o The money supply (M1) has increased at an average annual rate of about 9 percent over the past two years, as the discussion above points out. The possible delayed effects of this growth could lead to inflationary pressures in labor markets and other sectors next year. While unemployment is currently not at inflation-generating levels, it has been moving down, and should a strong delayed effect from last year's monetary growth materialize, it could put it in the danger zone.
- o The exchange rate of the dollar has depreciated 16 percent over the past year and is expected to continue falling.

In combination, these factors make the inflation forecast unusually uncertain.

Special Factors Holding Down Inflation. The massive appreciation of the dollar from early 1980 to early 1985 played a large role in reducing inflation rates. Most estimates suggest that as the dollar appreciated by 60 percent to 85 percent, it reduced annual inflation rates (measured by consumer prices) by between one and two percentage points.

The dollar reached its peak in early 1985, then fell about 21 percent and finished the year about 16 percent below its value in December 1984. This development should eventually put upward pressure on prices in the United States. The timing and magnitude of this effect are difficult to predict, however. This is because the recent declines in the dollar's international value may have been partly absorbed in changes in the profit margins of foreign exporters, as well as of importers and distributors in the United States, rather than being passed through to ultimate purchasers. Some markets where imports have a dominant market share, such as consumer electronics and semiconductors, have already experienced price rises. The falling dollar is likely to begin soon to put upward pressure on prices of domestically produced goods and services as well.

Falling oil prices have also contributed to the decline in inflation (see Figure I-11). The downward drift of oil prices since 1980 has come about in part because of the conservation measures precipitated by the oil price

BOX I-2

THE OIL PRICE COLLAPSE

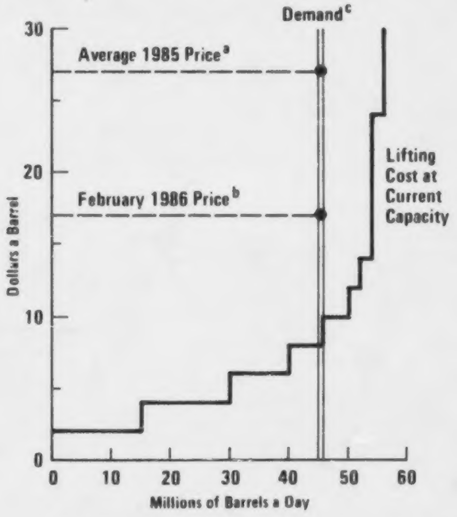
Since November 1985, crude oil prices have plummeted from over $28 a barrel to below $17 a barrel as of the first week of February 1986. Prices remain extremely volatile, and neither a resurgence nor a further decline can be ruled out. At $17 a barrel, oil prices in real terms are about 25 percent below their average level in 1974, immediately following the first large price increase by OPEC, but about three times their level in early 1973. At its peak in 1981, the real price of oil was nearly seven times its early 1973 level.

The immediate cause of the collapse in oil prices was a decision by Saudi Arabia to increase its share of the world oil market by raising production levels. This represents a reversal of its longstanding policy of stabilizing prices by restricting output, a policy that had forced it to reduce output by almost 80 percent between 1981 and 1985. In summer 1985, Saudi oil output fell to a low of 2.2 million barrels a day (mmbd), about half of its OPEC quota. The Saudis had borne the brunt of OPEC's effort to defend prices in the face of growing world oil production and stagnant world demand. The recent increase in Saudi Arabian output by at least 2 mmbd, combined with higher output from several other members of OPEC, has raised total OPEC crude oil output from a low of around 14 mmbd to at least 18 mmbd over the last six months. With non-OPEC supply remaining constant, the current supply of crude oil to free-world consumers is about 47-49 mmbd, which is about 2-3 mmbd in excess of current use. This excess supply has caused prices to fall. Since demand responds only weakly to oil price changes over the short run, a severe drop in price is required to induce enough of an increase in quantity demanded to clear the market. Given current production plans, this could mean market clearing prices in the $12 to $16 range. (This calculation uses standard estimates of short-run demand responsiveness to price changes. A decline in price to about $14 a barrel would force only about 1 mmbd of production to be shut down worldwide in the short run.) It is impossible, though, to predict how producers with excess capacity might respond to such lower prices. Considering that almost all the world's excess capacity is concentrated in the lowest-cost OPEC producers, almost half of it in Saudi Arabia, if OPEC decided to produce at full capacity, prices could fall to as low as $8 to $10 a barrel in the short run. In the long run, shifts in supply and demand for oil would probably cause these prices to rise substantially.

Whether prices actually go that low will depend on whether producers try to organize again, as OPEC first did in the early 1970s.

Indeed, the approach of producers--both OPEC and non-OPEC--to coordinating output levels is the major uncertainty for the oil market in the near term. A key concern influencing any prospective agreement among producers is how revenue from oil sales is affected by various combinations of output and price. Using a plausible scenario, oil prices might stabilize at $15 a barrel when OPEC members produce 19 mmbd, or at $25 a barrel if they produce 14 mmbd. At 19 mmbd, their annual revenues would be about $104 billion compared to around $128 billion at 14 mmbd. In this example, OPEC collectively gains from higher prices; in the short run, however, individual OPEC members might have different interests. For Saudi Arabia, production of 5 mmbd at $15 a barrel yields about $27 billion annual sales, while 2.5 mmbd priced at $25 a barrel brings in only $23 billion. In this case, at least in the short term, Saudi Arabia loses with higher prices. Given Saudi unwillingness to incur further revenue losses in order to support higher prices, oil prices are likely to remain well below their 1985 levels unless other producers agree to limit output in a manner deemed equitable by Saudi Arabia. To put any such decision in perspective, eliminating the current excess output of 2-3 mmbd would involve an across-the-board reduction of only about 7 percent to 10 percent from current production levels on the part of OPEC and major non-OPEC oil exporters.

Lifting Cost of Crude Oil



SOURCES: Congressional Budget Office; Texas Eastern Corporation; Exxon Corporation.

[a] OPEC output in 1985 averaged 16 million barrels a day.

[b] OPEC output in early 1986 was about 18.5 million barrels a day.

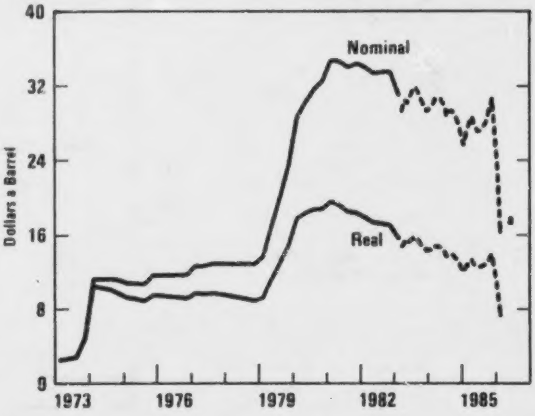
[c] Free world consumption in 1985 and the rate of consumption estimated for early 1986 are approximately 45-46 million barrels a day (consumption does not change much in response to price changes in the very short run).

increases of 1974 and 1979, and partly from strong growth in world supply. Since the trough of the past recession in the fourth quarter of 1982, oil consumption in the United States has increased only 4 percent, while real GNP has increased 14.1 percent. Because oil is priced in dollars, until the recent dollar depreciation it grew more expensive relative to other goods in many countries whose currencies are not tied to the dollar, encouraging even more conservation abroad.

The downward pressure on oil prices has recently been increased by a change in OPEC's policies (see Box I-2). OPEC has had to face growing production from countries outside its membership. It stemmed price declines for a while by cutting its own production, with a large proportion of the cuts made by Saudi Arabia. Recently, Saudi Arabia has indicated that it would seek to increase its market share even at the cost of a sharp price reduction. Prices fell dramatically in the New York market in response to this announcement; at one point in February, the price of oil for delivery in March was below $16.00, down from about $28.50 in November.

Another factor in the decline of inflation has been the weakness in prices of agricultural products and of some other major internationally traded commodities. The downward pressure on these prices has stemmed partly from the dollar's appreciation, but has been magnified by increases in production that are not directly related to demand increases. Some

Figure I-11.
Nominal and Real
Oil Prices



SOURCES: Congressional Budget Office; U.S. Department of Commerce, Bureau of Economic Analysis; Central Intelligence Agency, Directorate of Intelligence; New York Mercantile Exchange.

NOTE: The nominal price series is the official OPEC price (quarterly data) until 1983:1. The N.Y. Mercantile Exchange forward price for oil to be delivered in the next month is used thereafter. The real price series is the nominal price divided by the fixed-weight GNP price index.

[a] Average forward price in the first week of February for oil to be delivered in March.

examples are big harvests in the United States and elsewhere, the increasing self-sufficiency of developing countries in food, and increases in raw-material production that are part of the long-term development plans of some poorer countries.

The farm support system in this country has partly offset the farm income losses that normally would accompany commodity price declines, but at the cost of lower exports and a large increase in the federal deficit (see Box I-3). (The European Community has a similar farm support policy, but sells its excess production on the world market rather than holding it in stockpiles. This contributes to the U.S. farm problem.) The Food Security Act of 1985 reduces support prices for farm products in order to stimulate exports. World prices of farm products are thus likely to drop further, which should help to keep inflation down in 1986.

Closely related to the weakness of the dollar and of commodity prices is the relative sluggishness of domestic demand in other advanced countries, as compared with that in the United States. Japan's domestic demand growth since the U.S. recession trough has been only about half as strong as that of the United States, while demand in major European countries has grown even less strongly. In part, this discrepancy is the result of restrictive monetary and fiscal policies in many countries. These policies were undertaken to confront the same problem of high inflation that the United States faced, and to counteract depreciation of some currencies. The effect of these policies has been to keep the growth of demand in the rest of the industrial world well below that of the United States. This, in turn, has moderated inflation throughout the developed world and held down prices of traded goods.

Underlying Determinants of Inflation. Among the fundamental domestic determinants of inflation are the rates of unemployment and capacity utilization, and monetary policy. Because the last recession was very deep, the economy has not yet returned to levels of employment and capacity utilization typical at this stage of a business cycle. The unemployment rate remains above the level that presages an increase in the rate of inflation. Moreover, the estimated "noninflationary" unemployment rate is likely to move down over the next few years as the members of the large recent bulge of new entrants to the labor force advance in their careers. Capacity utilization in manufacturing, at 80.3 percent in December 1985, was about three percentage points below the rate at which inflation has accelerated in the past.

A period of sustained rapid growth in the money supply, such as experienced recently, would traditionally have been seen as a harbinger of

BOX I-3

THE PLIGHT OF THE AGRICULTURAL SECTOR

Farming in the United States is now closely linked to economic conditions abroad. During the 1970s, world demand for farm commodities outstripped foreign production, pushing up prices, profits, and land values in the United States. But in the 1980s the picture changed. Counterinflationary economic policies in many countries resulted in lower economic growth, dampening world demand for agricultural products. At the same time, farm production abroad was stimulated by favorable price movements, government subsidies, and improved technologies. Rising supply and flagging demand have exerted downward pressure on prices, causing U.S. farm exports to fall sharply over the last year.

Farm production in the United States remains modestly profitable, even though the total return on average farm equity, inclusive of imputed capital losses caused by falling land values, has turned negative. Increases in production and government income and price supports have significantly offset the effect of lower prices on farm incomes. Nevertheless, some heavily-indebted farmers are faced with severe financial hardship because they must pay back debt incurred when prices were high with income generated when prices are much lower. Many farmers have progressively reduced their debt service burden, aided by lower interest rates, and are limiting future debt accumulation by cutting back on new machinery and land purchases.

World demand for U.S. agricultural output is likely to increase in the future if the dollar continues to depreciate and U.S. farm support prices fall. Still, foreign supply capacity and prospects of only moderate foreign income growth will force the U.S. farm sector to continue retrenching until it returns to operating conditions more closely resembling the 1960s than the 1970s.

The Farm Security Act of 1985 is designed to facilitate this adjustment. It provides incentives to reduce farm production by tying acreage reduction requirements to eligibility for price and income support programs and by introducing a program to discourage farming of highly erodible land. Also included are provisions that reduce price support levels (loan rates) in an effort to stimulate demand, while maintaining income support levels (target prices for deficiency payments) in order to moderate declines in farm income.

increased inflation. For much of the 1980s, however, the relationship between money and the economy has been so volatile as to make it difficult to make such forecasts with confidence, as the discussion earlier in this chapter showed. The ratio of GNP to the money supply--referred to by economists as monetary velocity--has fallen drastically for reasons that are not well understood. Because of this decline, the Federal Reserve has been able to increase the growth of M1 without an increase in inflation. CBO assumes in its forecast that if velocity starts to increase rapidly, the Federal Reserve will offset the increase with slower money growth.

The Outlook for Inflation. Most current forecasts show inflation rising marginally from 3.5 percent in 1985 (as measured by the CPI) to the 3.5 to 5.0 percent range in the 1986-1987 period. This outlook embraces a number of offsetting factors, and is therefore subject to great uncertainty. On the one hand, a declining dollar could give inflation an upward push over the next year. This might be reinforced by continued rapid money growth, if it was not offset by velocity changes. On the other hand, a continuing decline in the international price of oil and weakness in other commodity prices (especially food) would work to reduce inflation, as would a continuation of the recent steadiness in real wages.

Consumption

In 1985, personal consumption expenditures grew 3.2 percent after inflation, faster than both GNP and disposable income. This growth is reflected in a drop in the personal saving rate, various measures of which are shown in Figure I-12. 9/ A relatively low saving rate is not unusual during periods of recession or sluggish growth; at such times, people try to maintain relatively smooth consumption patterns in the face of interruptions of income growth. 10/ This does little, however, to explain the current low saving rate, which has persisted well into the economic expansion.

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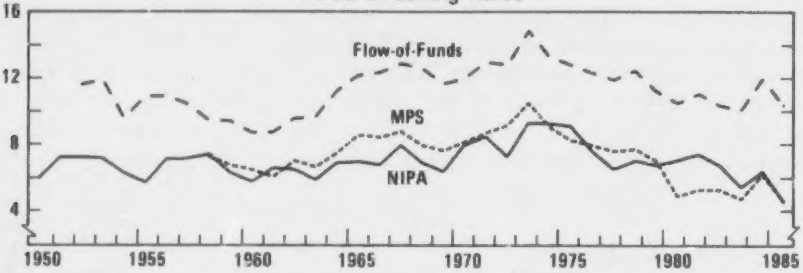
9. The saving rate was revised upward with the recent NIPA revisions. The revised data still show a significant decline since the late 1970s, however.

10. Another factor that can explain shifts in saving is a changing age composition of the population. People often save little when they are very young or very old. As a result, the overall saving rate can drop if the proportion of the population that is accounted for by these groups rises. Most analysts doubt, however, that this is a significant factor behind the relatively abrupt decline in the saving rate experienced in the last year.

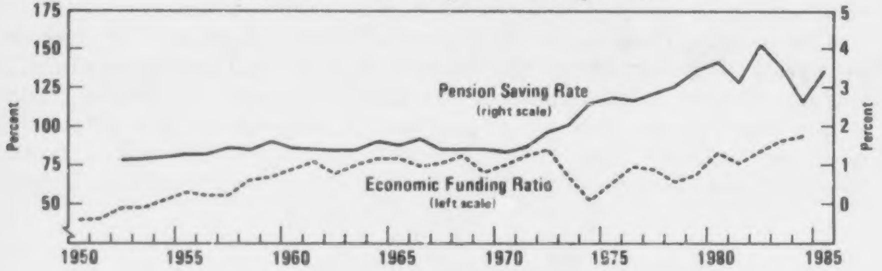
Figure I-12.

Personal Saving Behavior

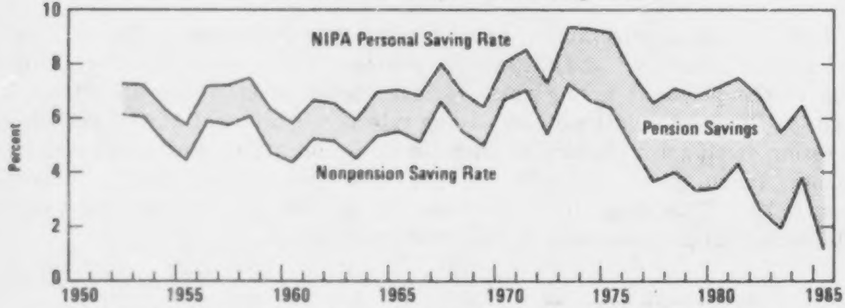
Personal Saving Rates



Pension Fund Saving and Funding Ratios



Pension and Nonpension Saving Rates



SOURCES: Congressional Budget Office; U.S. Department of Labor, Office of Pension and Welfare Programs; Federal Reserve Board; U.S. Department of Commerce, Bureau of Economic Analysis.

NOTES: Flow-of-Funds: approximately, saving plus net purchases of durable goods (purchases less depreciation of the existing stock) and additions to government life insurance and retirement accounts.
MPS: includes in saving purchases of durable goods, but subtracts their imputed service flows.
NIPA: the basic National Income and Product Accounts personal saving rate.
Pension Saving Rate: net acquisitions of private pension funds as a percent of personal disposable income.
Economic Funding Ratio: ratio of pension fund assets to the present value of obligations.

Purchases of durable goods rose much faster than overall consumption in 1985, but unevenly because of swings in auto sales. Spurred by factory discounts and financing incentives, auto purchases rose very sharply in the third quarter and declined in the fourth quarter as sales incentives ended. Real new auto purchases were up 6.9 percent in 1985 over 1984; consumer durables as a whole were up 8.2 percent. A new round of financing incentives spurred auto sales again in early 1986, but the increase is likely to be short-lived, as it was last year.

Purchases of durables are often erratic. Such movements act to shift the measured saving rate. Durable goods are not consumed immediately, of course, and may last many years. Even allowing for this, however, the personal saving rate still appears low.

Net Worth. Relatively strong household net worth may account for much of the recent pattern of strong consumption and weak saving. The ratio of net worth to disposable income has been higher all through the 1980s than at any time in the 1970s, although its rate of increase has been slowing. The measured saving rate tends to be low when household net worth is relatively high, and vice versa. When net worth is high, people feel that their futures are well provided for, and that they have less need to save.

This type of behavior is also evident in the management of private pension funds, where developments directly affect the NIPA measure of personal saving. As Figure I-12 shows, when the funding ratio--a measure of the assets of a pension fund relative to its current and future obligations--is high, net acquisitions of the fund, principally employer contributions, tend to slow. Because these contributions are included in personal savings, a slowing reduces the measured rate of personal saving. The figure breaks the personal saving rate into pension fund saving--net acquisition of pension fund assets--and nonpension saving. The relative pace of pension fund saving has slowed noticeably in the 1980s consonant with the increase in the funding ratio, and this has contributed to the decline in the overall NIPA saving rate. The decline in nonpension saving has been even more significant.

Consumer Debt. The ratio of consumer installment debt to disposable personal income is at an all-time high of 18.9 percent, but this in itself may not be cause for serious concern. Overall, household net asset and liquidity positions have improved significantly during the 1980s. In addition, falling interest rates are expected to ease the burden of installment purchases. On the other hand, the delinquency rate on consumer debt has recently edged upward to 2.4 percent in the third quarter of 1985 from 2.1 percent a year earlier.

The Outlook for Consumption. CBO anticipates that consumption will continue to grow moderately, though somewhat more slowly than the economy as a whole, during the next year. But the outlook is very uncertain. If interest rates are not as low as market participants currently expect, or if the stock market falls for some other reason, the value of existing assets will fall. This could lead to a retrenchment in consumption as households acted to rebuild their net asset positions.

Uncertainty surrounding the exact method of satisfying the budget deficit targets in fiscal year 1987 adds to the difficulty in forecasting consumption. There is no basis yet for predicting the particular changes in federal spending and, possibly, taxes that may occur, so the effects of the legislation on consumption cannot be gauged.

Business Fixed Investment

Business fixed investment had another good year in 1985, although its growth slowed substantially from the pace of the previous year (see Table I-13). Spending on equipment followed a seesaw pattern with much of the instability concentrated in two major categories: autos and trucks, and office equipment (which includes computers). The introduction of a new generation of mainframe computers was one of the factors contributing to the uneven pattern in spending for equipment. Real investment in structures slowed sharply after the first quarter and continued growing relatively slowly after that.

TABLE I-13. RECENT TRENDS IN BUSINESS FIXED INVESTMENT (Percent change at annual rates)

				1985			
	1983	1984	1985	I	II	III	IV
Nonresidential Structures	-9.5	14.6	11.4	19.8	5.2	1.2	6.4
Producers Durable Equipment	3.2	22.2	8.7	-10.2	16.9	3.0	12.4
Total	-1.8	19.5	9.6	-0.5	12.5	2.4	10.3
Real GNP	3.4	6.6	2.3	3.7	1.1	3.0	2.3

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

In spite of the decline in its growth rate, the level of real business investment in 1985 remained high owing to its very rapid growth the previous year. Thus, though investment did not contribute strongly to growth in demand, it continued adding to productive capacity. The sharp slowing in its growth in 1985 may have come in response to the smaller slowdown in the growth of overall output. Such an exaggerated investment response is to be expected in the framework of the textbook "accelerator" theory of business investment. The pattern is also typical of postwar recoveries, although it has generally occurred earlier in the expansion than was true last year.

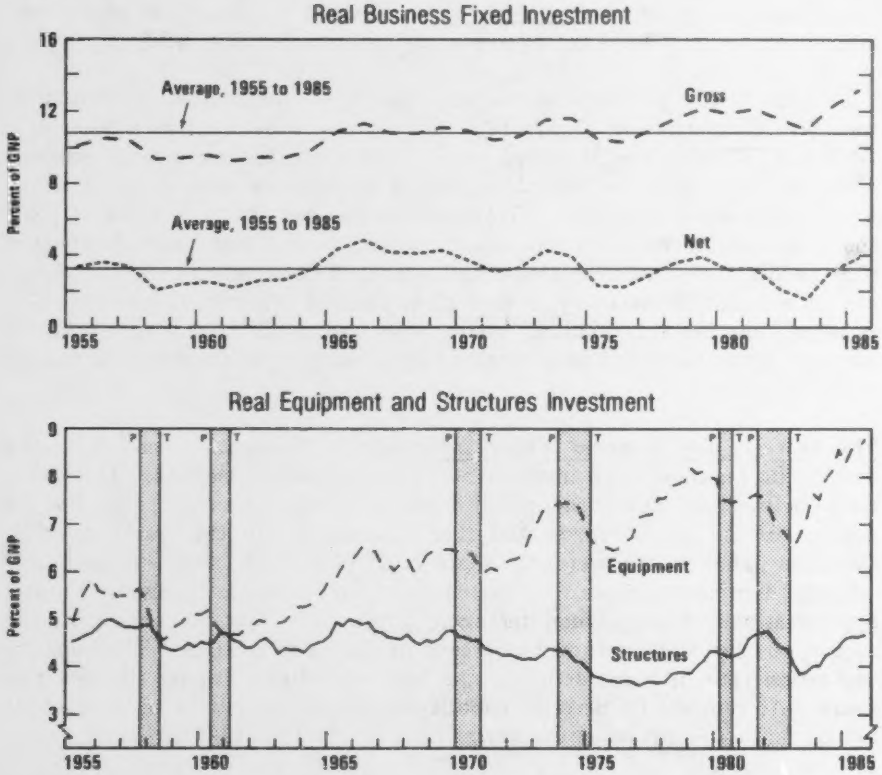
Much of the recent growth in business structures has been concentrated in commercial buildings, such as office buildings, stores, and warehouses. The boom in office building has continued despite extremely high office vacancy rates, but it now appears to be slowing. Tax considerations, particularly proposals to end some of the tax advantages of the real estate industry, may have helped to prolong the boom in office building.

The recent performance of business fixed investment is placed in historical perspective in Figure I-13. Real gross investment as a percent of GNP has recently been at record levels. But net investment--what remains after worn-out and obsolescent capital is replaced--is only at an average level by historical standards. This reflects the fact that the share of GNP spent on equipment, which is relatively short-lived, has been rising over time, while the structures share has remained relatively flat. The figure also shows that the recovery in both gross and net investment from the 1982 recession has been particularly sharp, although much of this expansion in domestic investment has been financed by a lowering of the net U.S. foreign capital position.

The Outlook for Business Fixed Investment. Current indicators of the outlook for business fixed investment are mixed (see Table I-14). One near-term bellwether, new orders for nondefense capital goods, was up 5.7 percent in the third quarter but rose less sharply in the fourth quarter. December new orders were up sharply (18.6 percent), but the gain was probably temporary, since it reflected bunching in aircraft orders. Capital appropriations of large manufacturing firms fell about 8 percent in the second quarter and another 11 percent in the third quarter. The capacity utilization rate in manufacturing has been essentially flat for the last two years. At roughly 80 percent, capacity utilization has been holding about two percentage points below the average rate for the 1967-1984 period.

By far the most positive signs for business investment are financial data. Corporate profits, adjusted to remove the effects of inventory price changes and to reflect economic rather than tax-related depreciation, have been quite strong in the current recovery. In the third quarter of 1985, for example, profits were up 14 percent from year-ago levels. The net cash flow of corporations, which includes depreciation and retained earnings, also showed strong growth in 1985. The most dramatic recent development in the financial area, however, has been the decline in interest rates and the rise in the stock market--both of which bode well for business investment. The interest rate on high-quality corporate bonds, a measure of the cost of borrowing to finance investment, declined two full percentage points from the third quarter of 1984 to the third quarter of 1985 and another half point

Figure I-13.
Business Investment



SOURCES: Congressional Budget Office; U.S. Department of Commerce, Bureau of Economic Analysis.

NOTE: Investment and GNP are in constant 1982 prices. Net investment is gross investment minus economic depreciation. Data for gross and net investment are annual; data for equipment and structures are quarterly.

TABLE I-14. CURRENT INDICATORS OF BUSINESS FIXED INVESTMENT AND SURVEYS OF CAPITAL SPENDING PLANS FOR 1986

			1984			1985				
	1984	1985	I	II	III	IV	I	II	III	IV
					Current Indicators					
Nondefense Capital Goods Orders (billions of dollars per month)	26.9	27.3	26.5	27.5	27.4	26.3	26.8	26.3	27.8	28.1
Manufacturers' Capital Appropriations (billions of dollars, annual rate) a/	116.0	N.A.	115.6	136.4	109.2	116.4	119.6	110.4	98.0	N.A.
Manufacturing Capacity Utilization Rate (percent)	80.8	80.3	79.9	80.7	81.6	81.0	80.5	80.3	80.3	79.9
Corporate Economic Profits (billions of dollars, annual rate) b/	273	N.A.	268	278	271	276	282	288	309	N.A.
Corporate Net Cash Flow (billions of dollars, annual rate) c/	358	N.A.	345	355	363	370	381	390	409	N.A.
Corporate AAA Bond Rate (percent)	12.7	11.4	12.3	13.2	13.0	12.4	12.3	11.6	11.0	10.5
Standard and Poor's 500 Stock Index (annual percent change)	0.0	16.4	-12.4	-11.0	12.9	12.1	32.7	18.0	7.8	19.7

Surveys of Capital Spending Plans for 1986

	Nominal	Real
U.S. Department of Commerce d/	2.4	-1.0
McGraw-Hill Survey e/	-1.0	-5.4

SOURCES: Congressional Budget Office; U.S. Department of Commerce, Bureau of Economic Analysis; McGraw-Hill, Inc.; Conference Board; Federal Reserve Board.

NOTE: N.A. = not available.

a. Because of the seasonal adjustment procedure, the annual figure does not equal the average of the quarterly figures.

b. Economic profits are adjusted for inventory valuation and capital consumption allowances.

c. Net cash flow equals corporate retained earnings with inventory valuation adjustment, plus economic depreciation.

d. Conducted in October and November 1985.

e. Conducted in September and October 1985.

in the fourth quarter. Higher stock market prices mean lower costs of investment through equity finance.

On the negative side, uncertainty about tax policy may be holding back investment plans in some sectors. Moreover, surveys of business investment plans for 1986 have been pessimistic. The survey conducted by the Commerce Department in late October and November showed planned investment up 2.4 percent above the 1985 level in nominal terms and down 1.0 percent after adjusting for price changes. The McGraw-Hill survey suggested even lower levels, although it was conducted earlier in the fall and is not adjusted for systematic biases in reporting. It should be noted, however, that neither of these surveys fully reflects the recent decline in interest rates.

Inventories

Business inventory investment showed a substantial decline in 1985 from the record accumulation of the previous year. The pace of inventory accumulation began to slow in late 1984, and inventories actually declined in the third quarter of 1985 for the first time in over two years. The decline was primarily the result of the liquidation of hefty stocks of passenger cars, as well as a decline in farm inventories. Inventories rose again in the fourth quarter as consumption declined and automobile manufacturers restocked their inventories, hoping that a new round of financing incentives would encourage sales in early 1986.

Figure I-14 shows that the real inventory-sales ratio has fallen since late 1983 to levels last seen in the early 1970s. 11/ One plausible explanation of this relatively laggard pace of inventory investment is that the net return to holding inventories has declined. The current expansion has been accompanied by relatively high real interest rates, which raise the opportunity cost of holding inventories. Moreover, in contrast to other postwar recoveries, there has been no acceleration in producer-price inflation, and this weakens the speculative motive to hold inventories. Together, these two factors may have made inventory holding relatively unattractive in the current expansion.

The Outlook for Inventory Investment. Except for autos, inventories now appear generally to be low relative to sales. The rate of inventory investment seems unlikely to decline much farther. The CBO forecast sees

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11. Before the recent revision in NIPA data, the real inventory-sales ratio was thought to be near a record low. The revisions raised the real inventory-sales ratio, which is now below the range established since the mid-1970s but within the longer-term historical range.

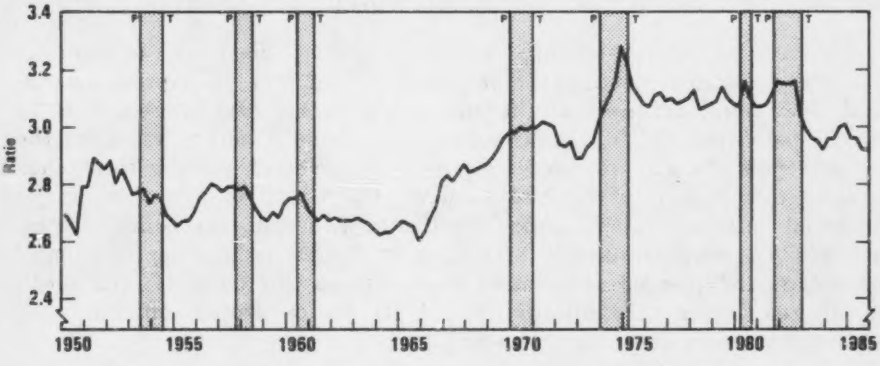
it increasing in the near term and then returning to trend as real interest rates soften and inflation picks up slightly. A stronger increase could occur temporarily, however, if consumption grows less strongly than producers expect.

Residential Construction

Despite the lowest interest rates in years, housing construction remained inexplicably weak over much of 1985. Housing starts, which averaged only about 1.7 million units in 1985, began last year at a relatively healthy pace, slowed during the year, and rebounded at year-end. The slowdown was blamed on a number of factors, such as relatively high inventories of new homes, tightening of secondary market underwriting standards, severe weather, and uncertainty caused by prospective changes in tax laws.

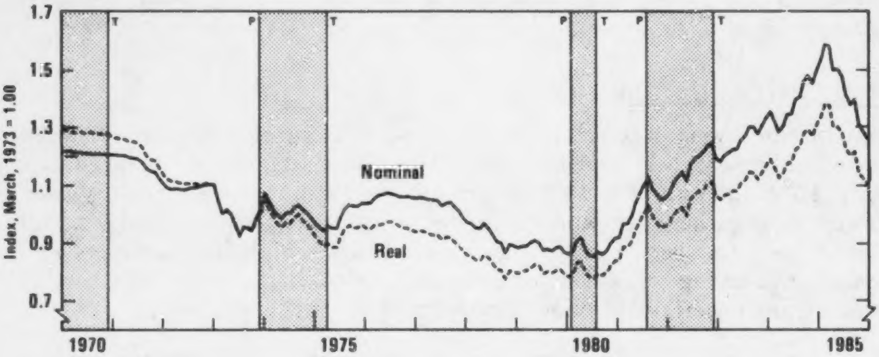
The sharp rise in starts at year-end may signal a recovery in residential construction in 1986. Financial conditions appear to be favorable, and mortgage interest rates may fall somewhat farther in 1986. This drop, combined with the fact that housing price increases are likely to be modest, should make it easier to afford a new house than at any time since the late 1970s. Inventories of single-family homes are now low enough to allow any pickup in new-home purchases to be translated quickly into starts. In addition, the most recent tax proposals have maintained the interest exclusion on second homes and the deductibility of real estate taxes. The final form of this legislation is still unclear, but market

Figure I-14.
Real Inventory-Sales Ratio, Nonfarm Business



SOURCES: Congressional Budget Office; U.S. Department of Commerce, Bureau of Economic Analysis.

Figure I-15.
Exchange Rate



SOURCES: Congressional Budget Office; Federal Reserve Board; International Monetary Fund.

NOTE: The nominal index is a trade-weighted average of bilateral dollar exchange rates. The real index adjusts the nominal index for relative movements in CPIs, and is a measure of the relative prices of domestic and foreign goods and services.

expectations have probably become more optimistic. Finally, sufficient mortgage credit should be available to finance a pickup in construction.

Net Exports

The international value of the dollar trended downward over the last three quarters of 1985, falling quite sharply at times, to a monthly average for December nearly 21 percent below that for February (see Figure I-15). Thus, the long upward trend of dollar appreciation that began in the third quarter of 1980 was rolled back approximately to mid-1983 levels.

A number of forces caused this turnaround. Slack in the domestic economy, an accommodating U.S. monetary policy, and an improved likelihood of eventual action on the federal deficit caused real interest rates in the United States to fall relative to those abroad, thereby reducing the attractiveness of dollar assets (see Figure I-16). When the dollar threatened to strengthen again in the late summer, the Group of Five (G5) major industrial nations (France, Japan, the United Kingdom, the United States, and West Germany) responded by calling for further orderly depreciation of the dollar, and pledged cooperation to encourage this outcome. In effect, the United States substantially revised its stance against official intervention in currency exchange markets. 12/

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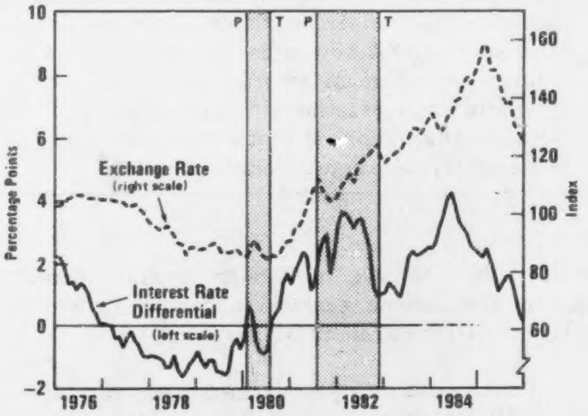
12. Intervention is the buying or selling of currencies by official monetary authorities.

Because trade responds to exchange-rate movements with a considerable lag, the decline in the dollar exchange rate last year has so far had little observable effect on U.S. international trade. Net exports continued to fall last year, but revisions in the trade data make it especially difficult to assess the present situation. One reason for the unusually large recent revisions of the trade data is to correct for reporting delays that distort the measurement of actual trade flows and thereby also of GNP growth rates (see Box I-4).

The Trade Deficit and the Standard of Living. One consequence of the large current-account deficits in recent years is that foreigners have been acquiring more and more assets in the United States, such as business capital, real estate, and government bonds, as a result of this country's need to sell dollar-denominated assets to other countries in order to finance the balance-of-trade deficit.

That foreigners own more and more productive capital in this country is reflected in the difference between the growth rates of gross national product (GNP) and gross domestic product (GDP). Broadly speaking, GDP represents the output produced by labor and capital located in the United States, regardless of who owns it. GDP differs from the more familiar GNP measure, which represents, broadly, the flow of production from labor and capital owned by U.S. residents regardless of where it is located in the

Figure I-16.
The Exchange Rate and Relative Interest Rates



SOURCES: Congressional Budget Office; Federal Reserve Board; International Monetary Fund.

NOTE: The exchange rate is a trade-weighted average of bilateral dollar exchange rates. The real interest-rate differential is the difference between long-term real interest rates for the United States and a GDP-weighted average for other industrial countries. Long-term real interest rates are long-term nominal interest rates (on government bonds), adjusted for expected inflation rates. Expected inflation is proxied by a two-year centered moving average of actual and projected CPI inflation rates.

BOX I-4

MERCHANDISE TRADE DATA REPORTING PROBLEMS

Recently the Bureau of the Census revealed that as much as one-half of the value of imports normally reported during what is termed a statistical month actually entered the economy in previous months. Such delays occur because of lags between the actual passage of imported goods through Customs and the receipt by the Census Bureau of the underlying documents. This problem has serious implications for the National Income and Product Accounts (NIPA). The NIPA data are based in part on Census Bureau trade flow reports, and are meant to register current economic developments, rather than the receipt of the corresponding documentation.

Discrepancies between statistical and actual-month import values since the beginning of 1984 ranged from less than $0.1 billion to $4.2 billion, averaging $1.8 billion per month or about 6 percent of average monthly import values. At least nine times over the last two years, statistical data misstated the direction of change of actual imports in a given month. The Census Bureau advises that at least four months of data are needed before actual monthly import values can be estimated accurately.

Recent broad revisions of the NIPA by the Department of Commerce's Bureau of Economic Analysis (BEA) include all available information on actual trade flows. For contemporaneous-quarter GNP calculations, BEA now relies primarily on its own estimates of trade flows rather than on reported statistical-month data. Although this procedure improves the ultimate accuracy of the NIPA data, it also increases the likelihood that significant revisions will have to be made as the actual trade data become available.

world. Net inflows of foreign capital reduce GNP relative to GDP because the income earned by foreign-owned capital in this country is reflected in GDP but not in GNP (see Box I-5).

In the past four years, the growth rate of real GDP exceeded that of real GNP by an average of 0.2 percentage points (see Table I-15). The difference can be viewed as the price that the United States is beginning to pay, in terms of reduced income, for having borrowed so much abroad.

The Outlook for Net Exports. CBO forecasts a gradual turnaround in the foreign trade deficit. The real net export deficit (measured in 1972 prices) should bottom out this year, even though deficits on merchandise trade and on current account will continue to grow in nominal terms. The improvement will not be rapid, however, partly because one component of the current account--net factor income--will continue to decline. Net factor income flows are expected to decline in both nominal and real terms over the forecast horizon. This decline reflects the fact that the United States will still have to borrow abroad on a net basis in order to finance its large current account deficits. Another factor contributing to delay in the improvement in the balance-of-trade deficit is the fact that the decline in the dollar may be partly absorbed as smaller profit margins for importers and foreign exporters, rather than being fully reflected in rising import prices.

The U.S. trade position may also be buffeted by events overseas. Increasing balance of payments difficulties in third-world countries could lead to a flight of capital from these countries to the United States, tending to push the dollar upward again unless confidence in the U.S. banking system were severely eroded at the same time.

Other factors that make the outlook uncertain: If major trading nations fail to agree on new multilateral measures to reduce barriers to trade, protectionist tendencies could grow, restricting the level of trade worldwide. Or a further tightening of monetary policy abroad could cause the dollar to fall much more than it does in CBO's forecast. In that case,

TABLE I-15. GROWTH RATES OF REAL GNP AND GDP, 1982-1985
(In percents)

	1982	1983	1984	1985
GDP	-2.5	3.6	6.9	2.6
GNP	-2.5	3.4	6.6	2.3
Difference	0.0	0.2	0.3	0.3

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

BOX I-5

NET FACTOR INCOME FLOWS

In the National Income and Product Accounts (NIPA), the gross national product (GNP) is the sum of gross domestic product (GDP) and income earned abroad by U.S. residents, minus income earned in the United States by foreign residents. In more succinct terms, GNP equals GDP plus net factor income flows. The growth rate of real GNP for the past four years has been significantly lower than that of real GDP because, on average, net factor income has declined.

Declining net factor income flows have been primarily the result of declining net flows of capital income--that is, interest and profits. The gross flows of capital income are determined by the stock of U.S.-owned foreign assets, the stock of foreign-owned U.S. assets, and their respective rates of return. (As a matter of convention, interest on U.S. government liabilities is treated as a transfer payment in the NIPA, rather than as a flow of income. Hence, in computing net factor income flows, interest payments to foreign holders of U.S. government liabilities are ignored.)

The United States has had to borrow abroad on a net basis in order to finance its large current-account deficits, and, consequently, foreign-owned U.S. assets have grown more rapidly than U.S.-owned foreign assets in recent years. As a result, sometime during 1985 the United States became a net debtor nation. The deterioration of the U.S. net foreign asset position has been accompanied by a decline in net factor income flows. This decline will continue in both nominal and real terms as long as the United States runs a trade deficit, implying a real GNP growth rate smaller than the real GDP growth rate well into the future.

A change in relative rates of return on U.S. and foreign assets can have a substantial impact on net factor income flows. If the relative rate of return on foreign-owned U.S. assets were to rise by a full percentage point in, say, 1986 (all other things being equal), then net factor income flows would fall by roughly $8 billion, subtracting about 0.2 percentage points from the real GNP growth rate but leaving GDP growth unchanged. Generally, converse movements in relative rates of return would yield symmetrically converse results.

Finally, changes in the portfolio composition of foreign-owned U.S. assets can have significant effects on measured net factor income flows. If foreign residents increase their holdings of U.S. government securities by shifting out of U.S. private securities, this raises both measured net factor income flows and the real GNP growth rate for the United States. Thus, as a result of an accounting convention, it is possible for measured net factor income flows to move in one direction even though net international receipts on total interest and profits move the other way. If foreign residents could convert their 1985 stock of U.S. private assets to U.S. government securities (all other things remaining equal), the resulting increase in net factor income would by 1987 raise the U.S. real GNP growth rate by a full percentage point above the growth rate of real output.

the competitive position of American producers would be enhanced, but the induced slowdown in foreign growth rates would tend to depress the demand for U.S. exports below the levels incorporated in CBO's forecast.

Government Purchases

The growth of government purchases, excluding the activities of the Commodity Credit Corporation (CCC), slowed in 1985.

The Federal Sector. On a National Income and Product Accounts (NIPA) basis, the growth of real federal purchases (excluding the CCC) amounted to 5.3 percent in 1985, down from 5.4 percent the previous year and 6.1 percent in 1983 (see Table I-16). The growth in 1985 mainly reflected an increase in defense spending (concentrated in the third quarter), especially for durable goods such as ships and vehicles. Overall, defense purchases rose by 7.1 percent, the second highest annual growth since 1967.

TABLE I-16. GOVERNMENT PURCHASES OF GOODS AND SERVICES
(By calendar year, on a national income accounting basis)

	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV
Billions of 1982 Dollars							
Federal a/	279.7	294.7	310.2	300.5	305.7	318.1	316.5
Defense	207.3	220.3	236.0	226.7	231.5	243.3	242.6
State and Local	372.2	383.3	394.2	387.1	393.6	398.1	398.0
Structures	42.9	45.6	48.9	44.2	49.2	51.9	50.4
Percent Change b/							
Federal a/	6.1	5.4	5.3	-5.9	7.1	17.2	-2.0
Defense	7.0	6.3	7.1	-2.1	8.7	22.0	-1.1
State and Local	0.9	3.0	2.8	0.5	6.9	4.7	-0.1
Structures	-0.2	6.3	7.2	-7.7	53.5	23.8	-11.0

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

a. Excludes purchases and sales by the Commodity Credit Corporation.

b. For calendar years, the percent change is calculated year over year.

Real federal purchases are expected to show some growth in 1986, despite cuts in spending needed to meet the deficits targets of the Balanced Budget Act. In 1987, however, the level of purchases is expected to decline, especially if the deficit target in that year is achieved through sequestration.

The State and Local Sector. Real purchases of goods and services by state and local governments rose by 2.8 percent in 1985, compared with 3.0 percent in 1984 and 0.9 percent in 1983 (see Table I-16). Most of this growth was in construction spending, which increased by 7.2 percent--one of the fastest growth rates in more than two decades. Highway and school-related construction were two important components of it. Construction is expected to grow more slowly during the forecast period. As the level of construction expenditures flattens, the growth of total state and local purchases is also expected to slow.

The operating surpluses of states and localities declined from a record $15.9 billion in 1984 to an estimated level of roughly $5 billion in 1985. By the third quarter of 1985, these surpluses were at their lowest level ($3.3 billion) since the recession-related deficits of 1982. State and local operating balances are likely to remain small, and possibly (on a NIPA basis) turn into deficits during the forecast period. Already scheduled cuts in federal grants (including the elimination of general revenue sharing in 1987) and likely additional cuts in grants to achieve the targets of the Balanced Budget Act are therefore likely to lead to further retrenchment on the spending side or to increases in some state and local taxes.

CHAPTER II

THE BUDGET OUTLOOK

The Congressional Budget Office projects that the baseline federal deficit will fall from $208 billion in fiscal year 1986 to $181 billion in 1987 and to $104 billion in 1991, assuming that defense and nondefense appropriations are held constant in real terms and that tax and entitlement laws are continued. While the federal debt will continue to grow as long as the government runs deficits, the rate of growth of the debt is projected to slow substantially. In relation to gross national product (GNP), the debt will increase from 38.4 percent at the end of 1985 to 42.7 percent by the end of 1988 but then begin to decline at a modest rate. Table II-1 summarizes the CBO baseline projections for total federal revenues, outlays, and the deficit, including off-budget items. Projections for on-budget and off-budget activities are shown separately in Box II-1.

Revenues grow more rapidly than outlays under the policy assumptions of the CBO baseline, because revenues are boosted by inflation and increases in real incomes, while outlays rise only slightly faster than the rate of inflation. Revenues rise somewhat more rapidly than nominal GNP in 1987 and 1988 and at about the same rate thereafter. Outlays are projected to rise at a rate of 4.8 percent per year--only slightly above the projected inflation rate of 4.1 percent. Revenues thus remain a roughly constant share of GNP, while outlays and the deficit fall, as Figure II-1 shows.

In 1987 outlays grow less rapidly than their 1986-1991 trend rate, while revenues increase more rapidly than trend. As a result, the deficit drops by $27 billion in 1987--more than in any later year. The major factor slowing 1987 outlay growth is a projected $6 billion drop in Commodity Credit Corporation (CCC) spending for farm price supports. The rapid rise in revenues in 1987 is caused by a pickup in personal income growth and the delayed effect of strong growth in corporate profits in 1986.

BASELINE BUDGET PROJECTIONS

The CBO baseline budget projections assume CBO's short-run economic forecast and longer-run projections, as described in the previous chapter. They also assume that current taxing and spending policies will continue unchanged for fiscal years 1987 through 1991. The projections are not forecasts of future federal budgets, since those budgets will doubtless include numerous policy changes. They are, however, a baseline or benchmark against which proposed policy changes can be measured.

In preparing the baseline projections, CBO must adopt a number of conventions or assumptions as to what constitutes current budgetary policies. In many cases, the choice of assumptions can substantially affect the projections. This section summarizes those assumptions; they are described in detail in Apppendix A.

Baseline Revenues

CBO baseline revenues are, with one exception, identical to the base revenues used to compute the excess deficit under the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177). (A detailed

TABLE II-1. CBO BASELINE BUDGET PROJECTIONS (By fiscal year)

	1985 Actual	1986 Base	Projections 1987	1988	1989	1990	1991
			In Billions of Dollars				
Revenues	734	778	844	921	991	1,068	1,144
Outlays	946	986	1,025	1,086	1,135	1,188	1,248
Deficit	212	208	181	165	144	120	104
Debt Held by the Public	1,510	1,720	1,900	2,064	2,207	2,326	2,429
			As a Percent of GNP				
Revenues	18.6	18.6	18.7	19.0	19.0	19.0	18.9
Outlays	24.0	23.5	22.8	22.4	21.8	21.2	20.6
Deficit	5.4	5.0	4.0	3.4	2.8	2.1	1.7
Debt Held by the Public	38.4	41.0	42.2	42.7	42.3	41.4	40.2
Reference: GNP (In billions of dollars)	3,937	4,192	4,504	4,838	5,214	5,619	6,047

SOURCE: Congressional Budget Office.

BOX II-1

ON-BUDGET AND OFF-BUDGET SPENDING AND REVENUES

The total outlays and revenues of the federal government include both on-budget and off-budget activities. On-budget and off-budget activities must be added together, however, to determine the total federal deficit that must be financed by borrowing from the public. The estimated total deficit is also used in calculating the excess deficit amount for purposes of the Balanced Budget Act.

In 1969, at the recommendation of the President's Commission on Budget Concepts, the government adopted a unified budget, which provided a comprehensive summary of federal revenues and spending. The unified budget was intended to give an accurate portrayal of the economic importance of government activities and to enable policymakers to control spending and tax policies more effectively. Starting in 1971, the unified budget concept became compromised by the exclusion of certain spending programs--primarily the lending activities carried out through the Federal Financing Bank and the purchase of oil for the Strategic Petroleum Reserve. The 1985 Balanced Budget Act returned all of these previously off-budget entities to the budget. Simultaneously, however, it moved off-budget the two Social Security trust funds--Old-Age and Survivors Insurance and Disability Insurance (OASDI).

This volume focuses on total federal government fiscal activities because of their significance for the economy and for implementing the Balanced Budget Act. Of the total amounts, however, Social Security represents roughly 19 percent of outlays and 25 percent of revenues. Moreover, the Social Security trust funds will be in surplus, while the on-budget activities will be running substantial deficits, as shown in the following table.

(In billions of dollars)

	1986	1987	1988	1989	1990	1991
Revenues						
On-budget	580	631	680	730	781	832
Off-budget (OASDI)	198	213	241	261	287	312
Total	778	844	921	991	1,068	1,144
Outlays						
On-budget	802	827	876	913	953	999
Off-budget (OASDI)	184	198	210	222	235	249
Total	986	1,025	1,086	1,135	1,188	1,248
Deficit (-) or Surplus						
On-budget	-222	-196	-195	-183	-172	-167
Off-budget (OASDI)	14	15	31	39	52	63
Total	-208	-181	-165	-144	-120	-104

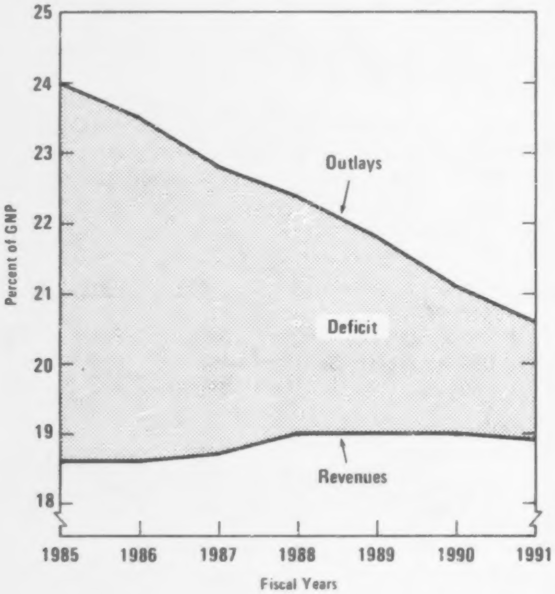
discussion of this legislation, called the Balanced Budget Act for short, may be found in Chapter III.) The act specifies that the revenue base is to assume that current tax laws continue unchanged and that expiring provisions will terminate as scheduled except for excise taxes dedicated to trust funds. In the same way, the baseline assumes that taxes for the Hazardous Substance Response (Superfund), Airport and Airway, and Highway Trust Funds are extended at the rates in effect on their expiration dates. In contrast to the revenue base for the Balanced Budget Act, however, the baseline assumes that the reduction in the civil service contribution rate for recently hired workers is extended beyond April 30, 1986.

Baseline Outlays

Federal spending can be divided into two categories. The first category--mandated by existing law--includes spending for Social Security benefits and other entitlement programs, for permanent appropriations such as interest

Figure II-1.

Federal Revenues, Outlays, and Deficit as Percents of GNP



SOURCE: Congressional Budget Office.

on the public debt, and for most trust funds and other special funds. The baseline spending projections for these programs are comparable with the Balanced Budget Act's outlay base, which assumes continuation of current law and termination of expiring provisions. Unlike the outlay base in the Balanced Budget Act, however, the CBO baseline assumes that the general revenue sharing program will be continued beyond 1986 and that cost-of-living adjustments will be provided for veterans' compensation.

The 1986 outlay estimates for mandatory spending programs reflect the sequestration of 1986 spending authority as required by the Balanced Budget Act. For programs with cost-of-living adjustments (COLAs), sequestering the 1986 COLA also reduces outlays in all future years. For most other mandatory programs, such as Medicare or farm price supports, 1987 spending authority is assumed to return to presequestration levels, so that no long-run reduction in outlays occurs.

Federal spending not mandated by existing law is controlled through the appropriation process. The fiscal year 1986 spending level assumed for these programs is the level enacted by the Congress through December 1985 and reduced according to the provisions of the Balanced Budget Act. The 1987-1991 projections generally assume that the 1986 postsequestration program level is adjusted to keep pace with inflation.

The baseline for appropriated accounts differs from the outlay base defined in the Balanced Budget Act. If appropriations for the fiscal year have not been enacted, the outlay base estimates under the Balanced Budget Act are to assume appropriations equal to those enacted for the previous year. The outlay base for the Balanced Budget Act thus excludes discretionary inflation and other adjustments made to keep baseline program levels constant in real terms. The CBO baseline, in contrast, includes these adjustments.

CHANGES IN BASELINE BUDGET PROJECTIONS SINCE AUGUST 1985

When CBO last published its budget projections in August 1985, baseline deficits were projected to continue growing in dollar terms and to remain a level 5.1 percent of GNP. In comparison with these baseline projections of six months ago, the present baseline projections seem surprising. (The major changes in the baseline are listed in Table II-2.) The projections are not strikingly different, however, from CBO's August reestimate of the Congressional budget resolution, which showed deficits declining from $175 bil-

TABLE II-2. CHANGES IN CBO BASELINE DEFICIT PROJECTIONS SINCE AUGUST 1985 (By fiscal year, in billions of dollars)

	1986	1987	1988	1989	1990
August 1985 Baseline Deficit	212.3	229.0	243.2	263.9	284.6
Changes Caused by					
1986 appropriations action a/					
National defense b/	-3.6	-13.8	-28.3	-42.0	-56.0
Nondefense discretionary	-6.9	-13.7	-13.9	-14.8	-15.0
Subtotal	-10.5	-27.5	-42.2	-56.8	-71.0
Effect of 1986 sequestration a/					
National defense	-5.5	-9.1	-10.6	-11.4	-12.0
Nondefense discretionary	-3.5	-5.1	-5.9	-6.3	-6.7
Entitlements	-2.5	-2.1	-1.6	-1.6	-1.7
Subtotal	-11.4	-16.3	-18.1	-19.3	-20.3
Assume zero real growth in defense spending a/	--	-3.2	-9.5	-18.0	-28.1
Net interest					
Lower interest rates	-3.3	-7.5	-11.0	-18.4	-30.6
Debt service and other c/	3.6	0.2	-5.3	-12.5	-20.4
Subtotal	0.3	-7.3	-16.3	-30.9	-51.0
Farm price supports	10.6	3.3	5.0	1.4	-3.5
Other outlays	-2.4	-5.6	-7.3	-7.7	-6.5
Lower revenues	9.5	8.9	10.1	11.0	16.0
Total Changes	-4.0	-47.7	-78.2	-120.3	-164.5
February 1986 Baseline Deficit	208.3	181.3	164.9	143.6	120.1

SOURCE: Congressional Budget Office.

a. Excludes resulting changes in net interest.

b. Assumes 3 percent real growth after 1986.

c. Includes effects of lower deficits resulting from all other changes.

lion in 1986 to $120 billion by 1990. What has happened in the past six months that has effectively validated the budget resolution projections?

First of all, the Congress adopted a 1986 budget resolution that assumed zero real growth in defense spending in 1986 and 3 percent real growth in the next two years, as opposed to about 5 percent real growth assumed in the 1985 budget resolution and in CBO's August baseline. The 1986 defense appropriation was slightly below the budget resolution target and, together with the lower rate of growth in future years, this reduces projected spending by $13.8 billion in 1987 and $56.0 billion in 1990. Appropriation action in 1986 will reduce projected nondefense discretionary spending by $13.7 billion in 1987 and $15.0 billion in 1990.

Second, the sequestering of 1986 spending authority under the provisions of the Balanced Budget Act reduces spending not only in 1986 but, as indicated above, in later years as well. The sequestration reduces 1986 outlays by $11.4 billion. Because spending authority had to be cut by about twice as much as the required outlay reduction, and because most of this reduction in spending authority is assumed to continue in later years, the savings from the 1986 sequestration will grow to $16.3 billion in 1987 and to $20.3 billion in 1990.

Third, the new CBO baseline--as described earlier--projects defense spending for 1987 and beyond on the basis of no real growth in program level, rather than the 3 percent real growth assumed in the 1986 resolution. The defense growth assumed in the August budget resolution can no longer be taken as representing current Congressional policy, because the 1986 postsequestration appropriation for defense is $16 billion below the budget resolution level. Assuming zero rather than 3 percent real growth for defense reduces the projected deficit by $3.2 billion in 1987 and $28.1 billion in 1990.

Fourth, the revised CBO short-term forecast and long-run economic assumptions feature interest rates substantially below those assumed in August. This change has been made because the Congress and the President are now committed by law to reducing the deficit in large steps each year so as to achieve a balanced budget by 1991. The reduction in assumed interest rates, together with a reduction in debt service costs from the other changes, will reduce net interest outlays by $7.3 billion in 1987 and $51.0 billion in 1990.

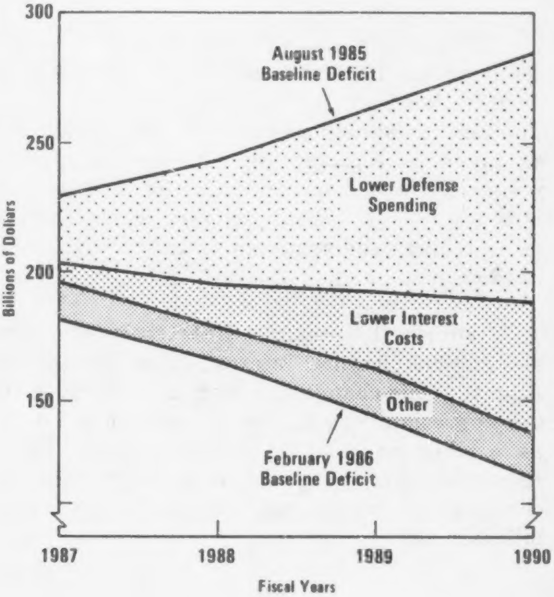
Figure II-2 adds up these changes and illustrates that almost all the reduction in the projected deficits stems from lower defense spending (both actual and assumed) and from lower interest costs. Most of the remaining reduction is attributable to decreased spending for nondefense discretionary programs. Small changes in the baseline deficits result from revised projections for farm price support spending and reductions in estimated outlays for other programs. In addition, a reduction in projected personal income reduces revenues from income and payroll taxes in every year. Higher projected corporate profits partially offset this reduction, but revenues are nevertheless $9 billion to $16 billion below the August baseline figures.

DIFFERENCES BETWEEN CBO BASELINE AND ADMINISTRATION CURRENT SERVICES PROJECTIONS

As part of its annual budget submission, the Administration presents a current services budget projection. The current services projection, like the CBO baseline, is a picture of what would happen to the budget assuming a

Figure II-2.

Sources of Change in Baseline Deficit Projections



SOURCE: Congressional Budget Office

continuation of policies now in place. While the Administration's current services deficit projections for 1987 through 1991 are very close to the CBO baseline figures, as shown in Table II-3, the similarities in deficit projections conceal offsetting differences in certain policy assumptions and in economic and technical estimating methods.

The current services projections are based on the budget authority figures for national defense contained in the Congressional budget resolution for fiscal year 1986 and in the Administration's Mid-Session Review of the 1986 budget. Roughly speaking, the current services figures for budget authority provide for 3 percent real growth in defense starting from the 1986 appropriation assumed in the budget resolution--not from the lower postsequestration defense appropriation, as assumed in the CBO baseline. These differences in assumed defense budget authority alone cause the baseline deficit to be $7.9 billion less than the current services deficit in 1987

TABLE II-3. DIFFERENCES BETWEEN ADMINISTRATION'S CURRENT SERVICES PROJECTIONS AND CBO BASELINE
(By fiscal year, in billions of dollars)

	1987	1988	1989	1990	1991
OMB Current Services Deficit	181.8	150.0	138.9	126.3	103.9
Policy Differences					
National defense	-7.9	-18.1	-28.1	-37.6	-47.1
Hospital insurance	-0.5	-0.6	-0.6	-0.7	-0.8
General revenue sharing	3.4	4.6	4.6	4.6	4.6
Superfund taxes	0.4	0.4	0.4	0.4	0.4
Subtotal	-4.6	-13.8	-23.7	-33.4	-42.9
Economic and Technical Differences					
Interest rates a/	-1.6	3.9	12.6	24.3	32.5
National defense	7.0	10.9	10.4	10.5	11.6
Other	-1.2	13.9	5.4	-7.6	-0.9
Subtotal	4.1	28.7	28.4	27.2	43.3
CBO Baseline Deficit	181.3	164.9	143.6	120.1	104.3

SOURCE: Congressional Budget Office.

a. Net interest function only.

and $47.1 billion less in 1991. There are also three other, smaller policy differences between the Administration's current services projections and the CBO baseline. The current services projections do not reflect the Administration's intention to limit the 1987 increase in hospital insurance reimbursement rates to 2 percent above the 1986 presequestration level, while the CBO baseline includes it. The current services projection assumes the termination of general revenue sharing, while the CBO baseline does not. And current services assumes extension of Superfund taxes at a higher level than does the CBO baseline.

These differences in policy assumptions are almost exactly offset by the Administration's more optimistic economic assumptions. Except for 1987, CBO assumes higher nominal interest rates than does the Administration. These differences in interest rates cause the baseline deficit to be $32.5 billion higher than the current services deficit by 1991. CBO also projects that the level of defense budget authority assumed in current services will result in higher outlays than does the Administration. These and other estimating differences between CBO and the Administration will be discussed in more detail in CBO's forthcoming report, *An Analysis of the President's Budgetary Proposals for Fiscal Year 1987.*

The preceding discussion has indicated three plausible assumptions for a defense baseline: (1) zero real growth from the 1986 program level after sequestration (as CBO assumes), (2) three percent real growth beginning in 1987, and (3) the defense budget authority assumed for 1987 and later years in the 1986 budget resolution (as in the Administration's current services projections). Table II-4 presents CBO's estimates of defense budget authority, defense outlays, and the deficit using these alternative defense baselines. Even with the two higher defense paths, the baseline deficit declines, although not as fast as in the zero real growth case. With 3 percent real growth in defense, the deficit falls to $185 billion in 1987 and $150 billion in 1991. Using the budget resolution figures for defense budget authority, the deficit declines to $190 billion in 1987 and to $160 billion in 1991.

BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS

The choice of economic assumptions has a major effect on the baseline budget projections. To illustrate how changes in economic conditions can affect revenues, outlays, and the deficit, CBO has prepared two consistent alternative sets of economic assumptions, described at the end of Chapter I. These alternatives are designed to mirror typical interactions among various aspects of the economy. Table II-5 shows how the baseline deficit projections would differ under these high-growth and low-growth alternatives. This section also provides some rules of thumb for gauging the effects of changes in individual economic variables on the budget.

High-Growth Alternative

In the high-growth case, revenues are greater than in the baseline, because of both increased real incomes and higher inflation. In the first few years of the projection, outlays are lower, as a result of reduced caseloads for entitlement programs, decreased interest rates, and lower debt service costs. But in later years, all categories of outlays exceed their baseline levels in order to keep pace with the higher assumed rates of inflation and higher interest rates. (Because the CBO baseline assumes that discretionary

TABLE II-4. BASELINE PROJECTIONS UNDER ALTERNATIVE DEFENSE ASSUMPTIONS (By fiscal year, in billions of dollars)

	1986	1987	1988	1989	1990	1991
CBO Baseline (Zero Real Defense Growth)						
Defense budget authority	287	301	315	330	345	362
Defense outlays	269	284	296	311	327	344
Deficit	208	181	165	144	120	104
3 Percent Real Defense Growth						
Defense budget authority	287	310	334	360	388	419
Defense outlays	269	287	306	329	355	384
Deficit a/	208	185	175	163	152	150
1986 Budget Resolution Defense Budget Authority Targets						
Defense budget authority	287	323	347	371	397	423
Defense outlays	269	292	315	339	365	391
Deficit a/	208	190	184	175	164	160

SOURCE: Congressional Budget Office.

a. Includes additional interest costs resulting from higher defense spending.

appropriations are held constant in real terms, the calculations adjust both defense and nondefense appropriations for differences in the price level.) Because of the higher real growth, however, the increase in revenues is greater than the increase in outlays, and the deficit falls. In fact, as pictured in Figure II-3, the budget would show a surplus of $70 billion in 1991 under these assumptions.

Low-Growth Alternative

The pattern of spending and revenue changes in the low-growth alternative is generally the opposite of that in the high-growth case. Revenues are less

TABLE II-5. CBO BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (By fiscal year, in billions of dollars)

	1986	1987	1988	1989	1990	1991
			Revenues			
High-Growth Alternative	784	866	971	1,086	1,228	1,403
CBO Baseline Projection	778	844	921	991	1,068	1,144
Low-Growth Alternative	777	818	828	882	948	995
			Outlays			
High-Growth Alternative	985	1,020	1,082	1,147	1,229	1,333
CBO Baseline Projection	986	1,025	1,086	1,135	1,188	1,248
Low-Growth Alternative	987	1,042	1,111	1,153	1,185	1,232
			Deficit			
High-Growth Alternative	202	154	111	61	1	-70a/
CBO Baseline Projection	208	181	165	144	120	104
Low-Growth Alternative	210	224	282	271	238	237

SOURCE: Congressional Budget Office.

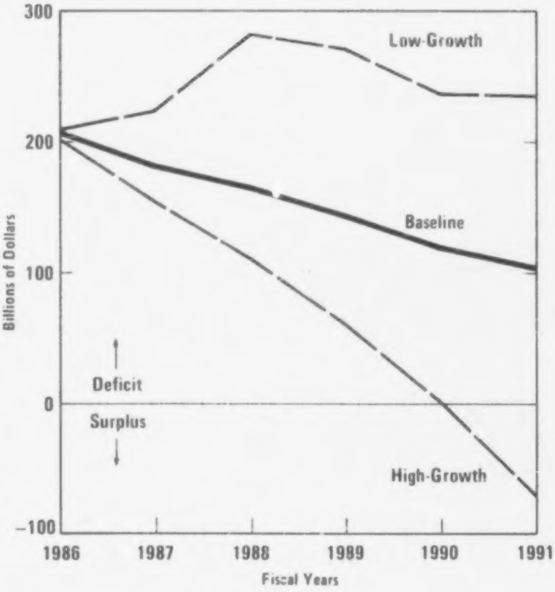
a. Surplus

than in the baseline. Defense and nondefense appropriations are about the same as the baseline in the first few years but lower after 1988, reflecting less inflation. The lower inflation also tends to reduce entitlement spending, but the increase in the unemployment rate works in the opposite direction. On balance, entitlement spending in the low-growth case is above the baseline for the first few years, when the unemployment effect predominates, but below the baseline in 1990 and 1991, when the inflation effect is more powerful. Net interest is higher in all years--initially because of higher interest rates and later, as interest rates drop, because of higher deficits. Total spending in the low-growth case is above the baseline through 1989 and only slightly below the baseline thereafter. As a result, the deficit is considerably higher in all years.

Rules of Thumb

While the use of consistent alternative forecasts is one way to illustrate the sensitivity of the budget to the economy, the same point may be made in a

Figure II-3.
Federal Deficit Under Alternative Economic Assumptions



SOURCE: Congressional Budget Office.

different fashion. Table II-6 provides some rough orders of magnitude, or rules of thumb, for gauging the effects on the baseline budget projections of changes in individual economic variables considered in isolation. Because CBO does not rely on rules of thumb for preparing its budget projections, they only approximate how the CBO baseline budget projections would change with such changes in the economic outlook.

TABLE II-6. EFFECTS ON CBO BASELINE BUDGET PROJECTIONS OF SELECTED CHANGES IN ECONOMIC ASSUMPTIONS
(By fiscal year, in billions of dollars)

Economic Variable	1986	1987	1988	1989	1990	1991
Real Growth: Effect of One Percentage-Point Higher Annual Rate Beginning January 1986						
Change in revenues	4	16	32	49	69	91
Change in outlays	-1	-3	-6	-12	-18	-26
Change in deficit	-5	-19	-38	-61	-88	-118
Unemployment: Effect of One Percentage-Point Lower Annual Rate Beginning January 1986						
Change in revenues	23	37	36	37	39	41
Change in outlays	-3	-7	-11	-15	-19	-22
Change in deficit	-26	-44	-48	-52	-57	-63
Interest Rates: Effect of One Percentage-Point Higher Annual Rates Beginning January 1986						
Change in revenues	a/	1	1	1	1	1
Changes in outlays	3	10	16	19	23	27
Change in deficit	3	9	15	18	22	25
Inflation: Effect of One Percentage-Point Higher Annual Rate Beginning January 1986						
Change in revenues	5	15	27	39	52	68
Change in outlays	3	14	27	39	52	65
Change in deficit	-2	-1	a/	-1	a/	-3

SOURCE: Congressional Budget Office.

a. Less than $500 million.

The rules of thumb illustrate the budgetary effects of a one percentage-point change, beginning in January 1986, for four variables: real economic growth, unemployment, interest rates, and inflation. The rules of thumb show that:

- An increase in the real growth rate or a drop in the unemployment rate will increase revenues and decrease outlays and the deficit.
- An increase in interest rates, assuming no change in inflation or GNP, will raise outlays and the deficit by about the same amount and will have only a small positive effect on revenues.
- Assuming that discretionary spending and interest rates respond to inflation, an increase in inflation will raise outlays and revenues almost equally and, therefore, have little effect on the deficit. If discretionary appropriations were not adjusted for the increased inflation, the deficit would be $4 billion lower in 1987 and $30 billion lower in 1991.

The estimates shown in Table II-6 are similar to those published by CBO in its last two annual reports (*Baseline Budget Projections for Fiscal Years 1985-1989*, pp. 55-68, and *The Economic and Budget Outlook: Fiscal Years 1986-1990*, pp. 73-76). The reader is referred to those earlier volumes for a discussion of the assumptions, implications, and limitations of these rules of thumb.

SPENDING PROJECTIONS BY MAJOR CATEGORY

Baseline outlays are projected to grow by $262 billion, or 4.8 percent annually, over the 1986-1991 period. Relative to the size of the economy, however, both total spending and all its major components decline. Total outlays fall from 23.5 percent of GNP in 1986 to 20.6 percent in 1991 (see Table II-7).

National Defense

National defense programs include not only the military activities of the Department of Defense but also the nuclear weapons programs of the Department of Energy and miscellaneous activities, such as maintaining defense stockpiles and administering the Selective Service. The projected decline in national defense spending as a share of GNP is in sharp contrast with recent CBO baseline projections. CBO's August 1985 baseline assumed the budget authority figures for defense contained in the Congressional budget resolution for fiscal year 1985, adopted in September 1984. That resolution provided for about 5 percent real growth over the 1985 appropriation. As a result, the August baseline projected that defense outlays would rise each year relative to GNP and reach 7.6 percent by 1990.

TABLE II-7. CBO BASELINE OUTLAY PROJECTIONS FOR MAJOR SPENDING CATEGORIES (By fiscal year)

Major Category	1985 Actual	1986 Base	Projections 1987	1988	1989	1990	1991
			In Billions of Dollars				
National Defense	252.7	269.5	284.0	296.4	310.9	326.9	343.9
Entitlements and Other Mandatory Spending	440.2	453.7	473.6	509.0	536.4	566.5	604.1
Nondefense Discretionary Spending	172.1	173.2	174.3	182.6	188.3	195.9	204.0
Net Interest	129.4	138.6	145.0	154.4	157.6	159.1	160.3
Offsetting Receipts	-48.1	-48.8	-51.5	-56.4	-58.4	-60.7	-64.4
Total Outlays	946.3	986.1	1,025.3	1,085.9	1,134.9	1,187.6	1,247.9
On-Budget Outlays	769.5	801.7	827.0	875.7	912.9	952.8	998.5
Off-Budget Outlays	176.8	184.4	198.3	210.2	221.9	234.9	249.4
			As a Percent of GNP				
National Defense	6.4	6.4	6.3	6.1	6.0	5.8	5.7
Entitlements and Other Mandatory Spending	11.2	10.8	10.5	10.5	10.3	10.1	10.0
Nondefense Discretionary Spending	4.4	4.1	3.9	3.8	3.6	3.5	3.4
Net Interest	3.3	3.3	3.2	3.2	3.0	2.8	2.7
Offsetting Receipts	-1.2	-1.2	-1.1	-1.2	-1.1	-1.1	-1.1
Total Outlays	24.0	23.5	22.8	22.4	21.8	21.1	20.6
On-Budget Outlays	19.5	19.1	18.4	18.1	17.5	17.0	16.5
Off-Budget Outlays	4.5	4.4	4.4	4.3	4.3	4.2	4.1

SOURCE: Congressional Budget Office.

In the present projections, which assume no real growth in defense budget authority over the 1986 program level, the defense share of GNP hits a maximum of 6.4 percent in 1985 and 1986 and then drops. By 1991, under these assumptions, the ratio of defense to GNP would be 5.7 percent--less than in fiscal year 1982--as Figure II-4 illustrates.

Entitlements and Other Mandatory Spending

An entitlement program is one that provides benefits to any person, business, or unit of government that meets the established eligibility requirements. Authorization for entitlements constitutes a binding obligation of the federal government, and eligible recipients have legal recourse if the obligation is not met. In addition, as described in Appendix A, other permanent appropriations and certain annually appropriated accounts are treated as mandatory even though the House and Senate Budget Committees do not both consider them entitlements.

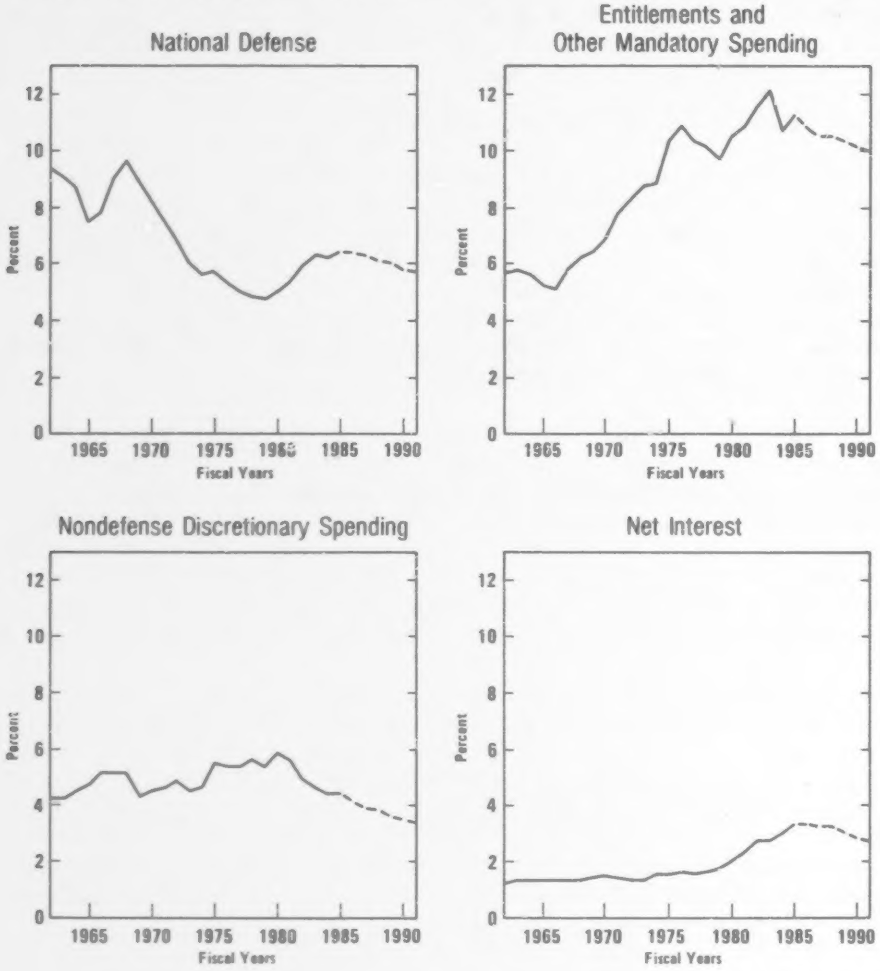
Table II-8 divides entitlement and mandatory spending into two broad categories--means-tested and nonmeans-tested programs. The means-tested category comprises programs that provide cash benefits or services to low-income people. These programs represent about 15 percent of entitlement outlays--$69.5 billion in 1986 and $85.9 billion in 1991. The largest and most rapidly growing program in the category is Medicaid, with outlays of $24.4 billion in 1986 and $33.5 billion in 1991. Other means-tested programs include Food Stamps, assistance payments, and Supplemental Security Income.

Nonmeans-tested programs can be subdivided into Social Security and Medicare, other retirement and disability programs, unemployment compensation, and other entitlement programs. Social Security and Medicare alone account for $269.8 billion, or almost 60 percent of entitlement spending in 1986; by 1991 they grow to $399.1 billion, or two-thirds of the entitlement total. Other retirement and disability programs, primarily federal civilian and military retirement, constitute 10 percent of entitlements. Unemployment compensation and other entitlements shrink from 15 percent to 9 percent of the total over the next five years.

Nondefense Discretionary Spending

Nondefense discretionary spending covers all remaining discretionary programs subject to annual appropriations or to loan or obligation limits imposed in appropriation acts. It includes portions of all budget functions

Figure II-4.
Outlays by Category as Percents of GNP



SOURCE: Congressional Budget Office.

TABLE II-8. CBO BASELINE OUTLAY PROJECTIONS FOR ENTITLEMENTS AND OTHER MANDATORY SPENDING (By fiscal year, in billions of dollars)

	1985 Actual	1986 Base	Projections 1987	1988	1989	1990	1991
Means-Tested Programs							
Medicaid	22.7	24.4	26.0	27.8	29.6	31.4	33.5
Food stamps	11.7	11.8	12.2	12.7	13.2	13.7	14.3
Supplemental Security Income	9.6	10.2	10.5	11.7	11.4	11.0	12.5
Assistance payments	8.6	9.2	9.5	9.8	10.0	10.3	10.8
Veterans' pensions	3.8	3.8	3.8	3.7	3.7	3.7	3.6
Child nutrition	3.7	3.9	4.2	4.5	4.8	5.1	5.4
Guaranteed student loans	3.5	3.4	3.4	3.4	3.3	3.1	3.0
Other	2.7	2.7	2.8	2.8	2.8	2.8	2.9
Total, Means-Tested Programs	66.3	69.5	72.3	76.4	78.8	81.5	85.9
Nonmeans-Tested Programs							
Social Security	186.5	197.3	209.3	223.9	239.3	255.7	273.4
Medicare	69.8	72.5	80.2	90.1	100.7	112.5	125.7
Subtotal	256.3	269.8	289.5	314.0	339.9	368.2	399.1
Other Retirement and Disability							
Federal civilian a/	23.1	24.1	25.4	27.2	29.0	31.0	33.1
Military	15.8	17.6	18.3	19.4	20.6	21.8	23.0
Other	5.2	5.1	5.3	5.5	5.6	5.8	6.0
Subtotal	44.0	46.8	49.0	52.0	55.3	58.6	62.1
Unemployment Compensation	17.5	16.4	16.7	16.9	17.0	17.0	17.5
Other Programs							
Veterans' benefits b/	12.9	13.1	13.3	13.6	13.5	13.5	13.8
Farm price supports	17.8	24.7	18.3	20.7	17.5	13.0	10.6
General revenue sharing	4.6	4.4	4.2	4.6	4.6	4.6	4.6
Social services	3.5	4.0	4.3	4.3	4.4	4.5	4.6
Other	17.3	4.9	6.0	6.4	5.5	5.9	5.9
Subtotal	56.0	51.1	46.0	49.6	45.4	41.4	39.5
Total, Non-Means-Tested Programs	373.9	384.2	401.2	432.5	457.6	485.3	518.1
Total Outlays	440.2	453.7	473.6	509.0	536.4	566.5	604.1

SOURCE: Congressional Budget Office.

a. Includes Coast Guard retirement.

b. Includes veterans' compensation, readjustment benefits, life insurance, and housing programs.

except national defense, net interest, and undistributed offsetting receipts. A large part of this category represents the salary and expense accounts that finance the ongoing operations of the civilian agencies of the federal government; this includes the legislative, judicial, and tax-collecting functions, the conduct of foreign affairs, and the costs of administering Social Security and Medicare. This category also covers most grants to state and local governments, including those for subsidized housing, highways and mass transit, elementary and secondary education, employment and training assistance, and low-income energy assistance. Nondefense discretionary spending, which already has declined to about the same share of GNP as it represented in 1962, falls further throughout the projections period to 3.4 percent of GNP in 1991.

Net Interest

The net interest category principally represents interest costs on federal debt held by the public, including that held by the Federal Reserve System. Interest paid to government trust funds has no effect on net interest outlays, since it is counted both as an expenditure and a receipt. Net interest costs are very sensitive to the assumptions made about future deficits and interest rates. A sustained one percentage-point rise in all interest rates would cause net interest outlays to exceed the baseline by $3 billion in 1986, $10 billion in 1987, and $26 billion in 1991. An increase in the deficit of $10 billion in each fiscal year during the 1986-1991 period would cause net interest to rise by $300 million in 1986, $1.4 billion in 1987, and $5.0 billion in 1991.

Because of declining deficits and interest rates (which are predicated on reaching the deficit targets in the Balanced Budget Act), the baseline projections reflect a slowing in the rate of growth of net interest. As a share of GNP, net interest declines from its 1985-1986 peak of 3.3 percent to 2.7 percent in 1991. Debt held by the public also grows more slowly (see Box II-2 on federal government borrowing and debt) and begins to decline as a percent of GNP after 1988 (as shown in Table II-1). Debt subject to statutory limit will reach its current ceiling of $2,078.7 billion in September 1986.

Offsetting Receipts

Offsetting receipts comprise federal government proprietary receipts from the public that are substracted from outlays rather than included in reve-

BOX II-2

FEDERAL GOVERNMENT BORROWING AND DEBT

The federal government borrows to finance its total deficit--the on-budget deficit less the off-budget surplus. Debt held by the public is the federal government's cumulative borrowing over the years from individuals, banks, and other private investors (including the Federal Reserve System). Each year debt held by the public grows by the amount of the total deficit, with small adjustments for changes in cash balances and other means of financing.

Debt held by government accounts represents holdings of debt by federal government trust funds and other special funds. These holdings grow as the trust funds run surpluses, which are invested in special interest-bearing Treasury securities. The surpluses of the off-budget Social Security trust funds (as well as those of the on-budget trust funds) thus reduce the need to borrow from the public but increase the debt held by government accounts by an equal amount and do not affect gross government debt. The trust funds' debt holdings represent their future claim on the government's cash when the funds' earmarked receipts may--for short or long periods--fall below their spending.

Debt subject to statutory limit is the figure voted by the Congress when raising the federal government's debt issuance authority. It differs from the gross federal debt in excluding a small amount of agency and other debt.

(In billions of dollars)

	1985	1986	1987	1988	1989	1990	1991
Total Deficit	212	208	181	165	144	120	104
Other Means of Financing	15	-2	1	1	1	1	1
Borrowing from the Public	197	210	180	164	143	119	103
Gross Federal Debt							
Held by the public	1,510	1,720	1,900	2,064	2,207	2,326	2,429
Held by government accounts	318	394	461	543	635	744	864
Total	1,827	2,114	2,362	2,607	2,842	3,070	3,293
Debt Subject to Statutory Limit	1,824	2,110	2,358	2,604	2,838	3,067	3,290

nues, as well as certain intragovernmental transactions. Of the $48.8 billion estimated in this category for 1986, $29.1 billion is the federal employer share of employee retirement. Another $5.8 billion consists of premiums paid by enrollees in Supplementary Medical Insurance (Medicare Part B) and by those who do not have sufficient quarters of coverage for Hospital Insurance (Medicare Part A). The next largest item, $5.1 billion, is rents and royalties for leases on Outer Continental Shelf tracts. Other receipts are for the sale or lease of minerals, electric power, and timber. Offsetting receipts are projected to represent 1.1 percent to 1.2 percent of GNP in all years.

REVENUE PROJECTIONS BY MAJOR SOURCE

Baseline revenues (including off-budget revenues) are projected to keep pace with GNP in 1986, increasing by $43.8 billion to $777.8 billion, while remaining at 18.6 percent of GNP. Revenue growth is projected to outpace the economy in 1987 and 1988. Revenues will reach $844.0 billion in 1987, or 18.7 percent of GNP, and $921.0 billion in 1988, or 19.0 percent of GNP. From 1988 through 1991, revenues are projected to grow somewhat more slowly than the economy, totaling $1,143.6 billion, or 18.9 percent of GNP in 1991 (see Table II-9). With only minor changes in economic assumptions and no major new legislation, revised baseline revenues will claim almost the same share of GNP at the end of the projection period as did CBO's projected baseline revenues in August 1985.

The pickup in baseline revenue growth in 1987 reflects the delayed effect of strong corporate profit increases in 1986. Individual income taxes grow slightly faster than the economy throughout the 1987-1991 period, because increases in real earnings push taxpayers into higher tax rate brackets. The 0.72 percentage-point increase in combined employer-employee Social Security tax rates effective in January 1988 underlies the strong revenue growth in 1988. Only personal income and Social Security taxes keep pace with GNP after 1988. By 1991 revenues as a whole grow a bit more slowly than GNP. Personal taxes account for an unprecedented 84 percent of total revenues in 1991, with the share of other taxes continuing to fall below previous levels (see Figure II-5).

BASELINE CREDIT PROJECTIONS

The credit baseline shows the level of new direct loan obligations and primary loan guarantee commitments that, like the baselines for federal spending and revenues, would occur with the continuation of current policies. These credit activities are not accurately measured by the outlay totals discussed previously, which include only loan disbursements net of any repayments and guarantees in the event of default. Consequently, they must be separately measured and analyzed.

TABLE II-9. BASELINE REVENUE PROJECTIONS BY SOURCE (By fiscal year)

Major Source	1985 Actual	1986 Base	Projections 1987	1988	1989	1990	1991
			In Billions of Dollars				
Individual Income	334.5	354.4	384.7	421.8	460.7	500.7	543.0
Corporate Income	61.3	72.2	89.2	100.2	108.0	112.2	113.9
Social Insurance	265.2	280.8	300.9	331.7	355.0	385.2	415.3
Windfall Profit	6.3	4.2	2.0	1.6	1.6	1.5	1.4
Other Excises	29.7	29.1	28.6	27.6	27.2	27.8	28.7
Estate & Gift	6.4	6.1	5.6	5.4	5.1	5.4	5.8
Customs Duties	12.1	12.3	13.6	14.9	15.9	16.9	18.1
Miscellaneous	18.5	18.7	19.4	17.8	17.8	17.7	17.5
Total Revenues	734.1	777.8	844.0	921.0	991.3	1,067.5	1,143.6
On-Budget Revenues	547.9	579.5	630.6	680.3	730.2	780.8	831.7
Off-Budget Revenues	186.2	198.3	213.4	240.7	261.2	286.7	312.0
			As Percents of GNP				
Individual Income	8.5	8.5	8.5	8.7	8.8	8.9	9.0
Corporate Income	1.6	1.7	2.0	2.1	2.1	2.0	1.9
Social Insurance	6.7	6.7	6.7	6.9	6.8	6.9	6.9
Windfall Profit	0.2	0.1	a/	a/	a/	a/	a/
Other Excises	0.8	0.7	0.6	0.6	0.5	0.5	0.5
Estate & Gift	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Customs Duties	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Miscellaneous	0.5	0.4	0.4	0.4	0.3	0.3	0.3
Total Revenues	18.6	18.6	18.7	19.0	19.0	19.0	18.9
On-Budget Revenues	13.9	13.8	14.0	14.1	14.0	13.9	13.8
Off-Budget Revenues	4.7	4.7	4.7	5.0	5.0	5.1	5.2

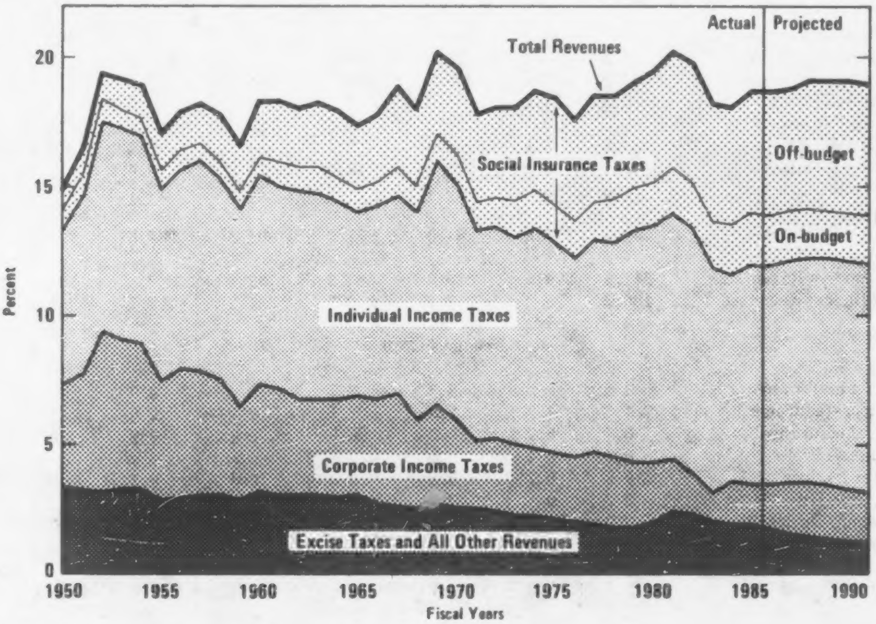
SOURCE: Congressional Budget Office.

a. Less than 0.05 percent.

Credit activity is projected from the limits set in fiscal year 1986, as reduced by the Balanced Budget Act. From this base, loan obligations or commitments for the 1987-1991 period are generally projected to grow at the rate of inflation. For credit programs without appropriation limits, the projections represent CBO's best estimate of loan activity.

Under these baseline assumptions, CBO projects that annual total federal credit activity will decrease from a 1986 base of $138 billion in new direct loan obligations and new primary loan guarantee commitments to

Figure II-5.
Revenues by Source as Percents of GNP



SOURCE: Congressional Budget Office.

$126 billion in 1987, and then grow slowly to $132 billion in 1991 (see Table II-10). The major factor in the decrease between 1986 and 1987 is a drop of $12 billion in primary guarantee commitments by the Federal Housing Administration (FHA). From 1986 through 1991, new direct loan obligations are expected to fall from $43 billion to $34 billion, or about 20 percent. The major areas of reduction are the CCC commodity price support loans and Farmer's Home Administration loan programs. Primary loan guarantee commitments will grow from $94 billion in 1986 to $98 billion in 1991, an increase of 4 percent. Secondary guarantees of the Government National Mortgage Association and the Trade Credit Insurance Fund grow from $55 billion in 1986 to $67 billion in 1991, an increase of 22 percent.

For both direct and guaranteed loans, five budget functions predominate in the totals (see Appendix Table B-3). Direct loans are made mainly for agriculture, commerce and housing, international affairs, veterans' affairs, and education. Housing loan guarantees made by the VA and FHA themselves comprise over 60 percent of total guarantees in any year.

The Balanced Budget Act integrated credit activity into the budget process and made credit activity subject to the act's sequestration orders. While the credit totals shown in Table II-10 better reflect the new lending

TABLE II-10. CBO BASELINE CREDIT PROJECTIONS
(By fiscal year, in billions of dollars)

Credit Activity	1985 Actual	1986 Base	Projections				
			1987	1988	1989	1990	1991
Net Direct Loan Obligations	52.8	42.8	37.5	36.1	35.1	34.1	33.9
Primary Loan Guarantees	84.7	94.4	88.1	91.6	94.7	97.9	97.6
Total	137.5	137.2	125.6	127.7	129.8	132.0	131.5
Secondary Guarantees	54.6	55.3	57.5	59.9	62.3	64.6	67.3

SOURCE: Congressional Budget Office.

activity than do budget outlays, neither the credit budget nor the spending budget adequately measures the economic significance of credit transactions. A better indicator would be the effective loan subsidies provided in any year. For direct loans, the subsidy is the difference between rates charged borrowers on private and government loans that are comparable in other respects. For guarantees, the subsidy is the difference between the cost of the government's guarantee and the fee that would be charged by a private insurer.

CHAPTER III

AUTOMATIC SPENDING REDUCTIONS UNDER THE BALANCED BUDGET ACT

The Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) establishes steadily declining deficit targets after 1986, culminating in a balanced budget in fiscal year 1991. The deficit target for fiscal year 1987 is $144 billion. Unless the Congress acts to reduce the deficit to this level before the start of the fiscal year, any excess deficit would be removed by sequestering budgetary resources. The deficit estimates used to implement the act are provided by the Congressional Budget Office (CBO), the Office of Management and Budget (OMB), and the General Accounting Office (GAO). Although the automatic spending reduction provision of the act has been ruled unconstitutional by a federal district court and this ruling may be upheld by the Supreme Court, the sequestration of budgetary resources to achieve deficit targets would remain an option to be used by the Congress under alternative procedures.

Given CBO's February assumptions, total outlays under a 1987 sequestration would have to be reduced to approximately $989 billion, or $37 billion below CBO's baseline estimate. There would be almost no growth in nominal outlay levels beyond CBO's postsequestration 1986 baseline level of $986 billion. For defense programs, new budget authority for 1987 would be limited to $271 billion, which is $30 billion below CBO's baseline projection and $49 billion below the Administration's budget request.

The sequestration procedures for 1987 will begin in August when the CBO and OMB will make their initial budget estimates, either to the Comptroller General or to a special joint committee of the Congress. The CBO estimates presented in this chapter are made for illustrative purposes and are subject to significant revision over the next six months as the result of legislative actions, changes in the economic outlook, and other factors. These estimates show that relying on the sequestration procedures to reach the $144 billion deficit amount specified for 1987 would mean reductions of $18 billion in outlays for defense programs and $17 billion for nondefense programs from CBO projected baseline levels. To achieve these outlay results, defense appropriations for 1987 would have to be reduced by 6.2 percent below 1986 postsequestration levels, and nondefense discretionary appropriations would have to be cut by 8.4 percent. The reductions in real terms would be even greater because of the loss of any adjustments for inflation in 1987.

PROVISIONS OF THE BALANCED BUDGET ACT

The Balanced Budget Act stipulates that budget deficits must be decreased annually and specifies measures that must be taken to achieve this result. The maximum deficit amounts set by the act for fiscal years 1986 to 1991 are (in billions of dollars):

Fiscal Year	Maximum Deficit
1986	171.9
1987	144.0
1988	108.0
1989	72.0
1990	36.0
1991	zero

If the deficit is estimated to exceed the maximum level by any amount in 1986 and 1991, or by more than $10 billion in 1987 through 1990, an automatic spending reduction procedure is triggered to eliminate the excess deficit through the sequestration of budgetary resources. Except for trust and special funds, this involves the permanent cancellation of new budget authority and other authority to obligate and expend funds. For 1986, the outlay reduction is limited by the act to a maximum of $11.7 billion, regardless of the amount of the excess deficit. In later years, the amount of possible outlay reductions is not limited.

The first step in the sequestration process is a joint report by the Director of the Office of Management and Budget and the Director of the Congressional Budget Office to the Comptroller General that:

- Estimates budget base levels, including the amount by which the projected deficit exceeds the maximum deficit amount for the fiscal year covered by the report;

- Provides OMB and CBO economic assumptions, including the estimated rate of real economic growth; and

- Calculates the amounts and percentages by which various budgetary resources must be sequestered in order to eliminate any deficit excess.

If either CBO or OMB projects real economic growth to be less than zero for any two consecutive quarters, or if the Department of Commerce reports actual real growth to be less than 1 percent for two consecutive quarters, many of the provisions of the Balanced Budget Act can be suspended by the Congress, including a sequestration order if it has not already gone into effect.

For fiscal year 1986, the joint OMB/CBO report to the Comptroller General was made on January 15, 1986, and was published in the *Federal Register* on that date. For subsequent years, the Directors will make an initial report on August 20 and a revised report on October 5 to reflect final Congressional action on the budget during the month of September.

The Comptroller General reviews the Directors' reports and issues his own reports to the President and the Congress that confirm or modify the information reported by OMB and CBO. The Comptroller General's reports are the basis for reductions in budgetary resources to be ordered by the President. For fiscal year 1986, the Comptroller General's report to the President was made on January 21, 1986, and was published in the *Federal Register*. For subsequent years, his initial report will be made on August 25 and the revised report on October 10.

The Presidential order to sequester funds specified by the Comptroller General was issued on February 1 for 1986 and will be issued on September 1 for subsequent years. Unless the Congress acts--and the President agrees--to modify the sequestration results by adopting an alternative plan to reduce the deficit, the 1986 reductions will take effect March 1, 1986, and the 1987-1991 reductions on October 1 in those years. Any Congressional action taken during September to reduce excess deficits for 1987 through 1991 will be reflected in a final Presidential order to be issued on October 15.

The constitutionality of the Balanced Budget Act procedures is now under review by the Supreme Court. The District Court for the District of Columbia ruled on February 7 that the role played by the Comptroller General in the sequestration procedures was unconstitutional because the act vests executive power in an officer who can be removed by the Congress. If the Supreme Court upholds the view of the district court, an alternative set of procedures would go into effect. The joint report by the Directors of CBO and OMB would be transmitted to a joint committee of the Congress made up of the entire membership of the House and Senate Budget Committees. This joint committee will report the contents of the CBO/OMB sequestration report in the form of a joint resolution to be passed by both Houses and approved by the President. Upon enactment of the joint resolution, the sequestration of budgetary resources would proceed.

This chapter gives a preview of the August 1986 CBO/OMB report to the Comptroller General or to the joint Budget Committee for fiscal year 1987. The calculations of amounts to be sequestered presented in this chapter use the CBO baseline and alternative economic assumptions discussed in Chapter I, and the baseline budget projections discussed in Chapter II. The August sequestration report will differ to the extent that there are legislative actions during the next six months that affect revenues or outlays, or that there are changes in the economic outlook or in other factors affecting budget estimates. In addition, the August report will use the average of CBO and OMB estimates of key amounts instead of relying solely on the CBO estimates used here for illustrative purposes.

BUDGET BASE LEVELS FOR 1987

The budget base levels of federal revenues and outlays determine the size of the excess deficit and, thus, the amount by which spending must be reduced under the emergency deficit reduction procedures mandated by the Balanced Budget Act. The budget base level estimates are, therefore, a key ingredient in the sequestration calculations.

The act provides that the base be calculated on a somewhat different basis than is used for the CBO baseline projections. The revenue level in the budget base is to be estimated on the assumption that current tax laws continue unchanged, and that expiring provisions will terminate as scheduled except for excise taxes dedicated to a trust fund, which are to be extended at current rates. The outlay level for entitlements or permanent appropriations is also to assume continuation of current law and termination of expiring provisions, except for Commodity Credit Corporation (CCC) price-support programs, which are to be extended at current rates. For annual discretionary appropriations, the outlay base estimates are to include enacted appropriation levels. If appropriations for the fiscal year have not been enacted five days or more before the CBO/OMB reporting dates, the outlay base estimates are to assume appropriations equal to those in force for the previous year with no adjustments for inflation.

CBO estimates of 1987 budget base levels are shown in Table III-1. The base level deficit for a possible 1987 sequestration is estimated at $166.6 billion, using CBO's February economic forecast. Under high-growth alternative economic assumptions, the base level deficit falls to $138.7 billion, which is about $5 billion below the maximum deficit amount specified for 1987. Under these assumptions, the emergency deficit reduction procedures would not be invoked. On the other hand, the base level deficit would climb to $208.1 billion under CBO's low-growth assumptions. These assumptions, however, include a recession in 1987, so that the Congress would have the option of suspending the sequestration procedures.

Changes from Baseline Budget Projections

The 1987 budget base levels shown in Table III-1 include a number of changes from the CBO baseline budget projections discussed in Chapter II. First, they assume termination of expiring provisions of law that were assumed to be extended for the CBO baseline projections. The major item is general revenue sharing, which will terminate at the end of fiscal year 1986 unless the current law is extended. Also, the temporary reduction in federal employees' retirement fund contributions will expire on April 30, 1986. This reduction was assumed to be extended for the CBO baseline projections.

Second, the budget base level estimates for outlays exclude discretionary inflation and other adjustments made to 1986 postsequestration appropriation levels for the CBO baseline projections. These adjustments were made in the CBO baseline to keep program levels constant in real terms, but they would not be included for sequestration calculations. The outlay estimates include proposed pay increases for military and federal civilian employees contained in the President's budget for 1987, which differ somewhat from the CBO baseline assumptions. Finally, net interest costs are adjusted to reflect the changed deficit levels in the budget base. These changes in CBO baseline budget projections are summarized in Table III-2.

TABLE III-1. BUDGET BASE LEVELS FOR THE 1987 SEQUESTRATION UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (In billions of dollars)

Budget Aggregates	CBO February Forecast	High-Growth Alternative	Low-Growth Alternative
Revenues	844.6	866.4	818.2
Outlays	1,011.2	1,005.1	1,026.3
Deficit	166.6	138.7	208.1

SOURCE: Congressional Budget Office.

Base Level Outlay Estimates

Further detail on the CBO base level outlay estimates for 1987 are provided in Table III-3, which shows that a relatively small portion of 1987 outlays will be affected by the sequestration of budgetary resources. About $172 billion of estimated 1987 outlays for defense programs, or 62 percent of total defense outlays, is associated with budgetary resources subject to an across-the-board percentage reduction. This amount includes $67 billion for military personnel accounts. The special exemption for military personnel accounts made by the President for 1986 will not be permitted in 1987 under the Balanced Budget Act. Outlays for military retirement benefits are included in the nondefense spending category.

TABLE III-2. CHANGES IN CBO BASELINE BUDGET PROJECTIONS TO CALCULATE BUDGET BASE LEVELS FOR SEQUESTRATION (In billions of dollars)

Item	Revenues	Outlays	Deficit
CBO Baseline Projections a/	844.0	1,025.3	181.3
Changes:			
Assume termination of expiring provisions of law:			
General revenue sharing	---	-3.4	-3.4
Federal employee retirement adjustment	0.6	---	-0.6
Exclude discretionary inflation and other adjustments to 1986 appropriation (postsequestration) levels:			
Defense programs	---	-7.5	-7.5
Nondefense programs	---	-2.6	-2.6
Adjust net interest costs	---	-0.6	-0.6
Total changes	0.6	-14.1	-14.7
Budget Base Levels a/	844.6	1,011.2	166.6

SOURCE: Congressional Budget Office.

a. Calculated using the CBO February economic forecast discussed in Chapter I.

TABLE III-3. BASE LEVEL OUTLAY ESTIMATES FOR THE 1987 SEQUESTRATION

Category	Billions of Dollars	Percent
Defense Programs a/		
Subject to across-the-board reduction	171.9	17.0
Other b/	104.6	10.3
Subtotal, defense programs	276.5	27.3
Nondefense Programs		
Programs with automatic spending increases c/	50.3	5.0
Certain special rule programs d/	96.2	9.5
Subject to across-the-board reduction	100.3	9.9
Major exempt programs		
Social Security and Railroad Retirement Tier 1	210.2	20.8
Net interest	144.4	14.3
Earned Income Tax Credit	1.2	0.1
Low-income programs e/	64.9	6.4
Veterans' compensation and pensions	14.4	1.4
State unemployment benefits	15.0	1.5
Offsetting receipts	-52.1	-5.2
Other f/	90.0	8.9
Subtotal, nondefense programs	734.7	72.7
Total	1,011.2	100.0

SOURCE: Congressional Budget Office.

a. Budget function 050, national defense.

b. Outlays from obligated balances.

c. Primarily federal employee retirement and disability programs, including military retirement.

d. Guaranteed student loans, foster care and adoption assistance, Medicare, veterans' medical care, community health, migrant health, and Indian health.

e. Aid to Families with Dependent Children, child nutrition, Medicaid, Food Stamps, Supplemental Security Income, and the Supplemental Feeding Program for Women, Infants, and Children.

f. Outlays from prior-year appropriations, certain prior legal obligations, and small exempt programs.

About $247 billion, or one-third of estimated outlays for nondefense programs, are associated with sequestrable budgetary resources. Of this total, $50 billion is for programs with automatic spending increases, primarily military and federal civilian employee retirement and disability programs. For these programs, the amount of spending reduction required by the act is limited to the cost-of-living adjustments, which are projected generally to be 3.4 percent for 1987. Another $96 billion in nondefense outlays is associated with certain special rule programs, of which the largest is Medicare. The act also limits the extent of spending reductions for these programs to not more than 2 percent in 1987 and future years.

Only $100 billion in 1987 nondefense outlays--about 14 percent--is associated with budgetary resources subject to an across-the-board percentage reduction. About $400 billion, or more than one-half of total estimated outlays for nondefense programs, is exempted from sequestration by the act. As shown in Table III-3, these exempt outlays are mostly for Social Security benefits and net interest costs.

CALCULATIONS FOR THE ILLUSTRATIVE 1987 SEQUESTRATION

The major elements of calculations for the illustrative 1987 sequestration, using CBO's February economic assumptions, are shown in Table III-4. Although the sequestration actually applies to new budget authority and other spending authority, the calculations use outlay estimates to determine the amount of sequestration.

The first step is to divide the amount of excess deficit--$22.6 billion for 1987--into two halves. One-half--$11.3 billion--is assigned to defense programs (budget accounts in function 050) and the other half to nondefense programs.

Second, the total amount of outlay savings from eliminating automatic spending increases is calculated. One-half of the resulting savings for indexed retirement and disability programs is applied to the required reduction in defense programs and one-half to nondefense programs. This amounts to an estimated $1.2 billion for 1987, so that $0.6 billion is subtracted from the $11.3 billion required reduction for both defense and nondefense programs.

Various additional calculations are made for nondefense programs, including the savings that can be obtained by eliminating automatic spending increases in three other specific programs--the National Wool Act, the special milk program, and vocational rehabilitation grants. Also included are savings to be obtained by applying certain special rules for guaranteed student loans, foster care and adoption assistance, Medicare, and certain health programs. These estimated savings amount to another $1.5 billion, which is also subtracted from the required reduction of $11.3 billion in nondefense outlays.

This leaves $10.7 billion for defense programs and $9.2 billion for nondefense programs to be obtained by across-the-board uniform percentage reductions in budgetary resources. The uniform percentages are calculated by dividing these dollar amounts by total estimated 1987 outlays associated

TABLE III-4. CALCULATING THE ILLUSTRATIVE SEQUESTRATION FOR 1987 (Outlays in billions of dollars)

Sequestration Items	Defense Programs	Nondefense Programs
Total Required Reductions	11.3	11.3
Savings from Eliminating Automatic Spending Increases		
Indexed retirement and disability programs	0.6	0.6
Other indexed programs	---	a/
Savings Under Special Rules	---	1.5
Remaining Reduction Required	10.7	9.2
Sequestration Outlay Base	171.9	109.5b/
Uniform Reduction Percentage c/	6.2	8.4

SOURCE: Congressional Budget Office.

a. Less than $50 million.

b. Includes $9.2 billion in estimated 1988 outlays for the Commodity Credit Corporation that can be affected by a 1987 sequestration.

c. Remaining required reductions divided by the sequestration outlay base.

with sequestrable budgetary resources. For defense programs, the sequestrable outlay base is $171.9 billion. For nondefense programs, the base is $109.5 billion, which includes $15.2 billion of 1988 outlays for farm price-support programs that can be affected by the 1987 sequestration. The resulting percentages are 6.2 percent for defense programs, and 8.4 percent for nondefense programs. These percentages are then applied to the new budget authority and other spending authority in the sequestration base.

As noted earlier, the budget base levels and calculations of the sequestration are very sensitive to changes in economic assumptions and other factors. For example, the base level deficit for a possible 1987 sequestration ranges from $139 billion to $208 billion under alternative economic assumptions, as shown in Table III-1. The likely deviation from the $167 billion base level deficit under CBO's February forecast caused by changes in the economic outlook between now and August should be smaller than indicated by this range, but could still be large.

Factors other than changes in the economic outlook can also affect significantly the estimates of outlays and the deficit. For example, the CBO estimates for 1986 outlays were increased by $16 billion between November 1985 and January 1986 because of Congressional actions and technical reestimates of spending. The largest change in 1986 outlay estimates was for agriculture programs, primarily CCC farm price-support programs. The farm bill passed in December added between $2 billion and $3 billion to estimated 1986 outlays, and lower farm commodity prices than assumed earlier led to a sharp upward revision in CBO spending estimates by $7 billion to $8 billion. Similar changes could be made in 1987 CCC outlay estimates in either direction between now and August, if unexpected changes occur in the size of harvests this summer or in farm exports. Another area where major technical reestimates of spending could be made is for defense programs. Reestimates on the order of $3 billion to $4 billion are not uncommon because of changes in spending rates observed in monthly Treasury statements.

For each $10 billion increase in the excess deficit, the uniform reduction percentage for defense programs is increased by about 3.0 percentage points, and for nondefense programs by about 4.5 percentage points, as shown in Table III-5. For example, if the August estimate of the base level deficit were $20 billion higher than the CBO February estimate of $166.6 billion because of such factors as lower revenues and higher interest rates, which do not change the sequestration base, the sequestration percentages would be 12.1 percent for defense programs and 17.5 percent for nondefense programs.

SEQUESTRATION RESULTS

The required reductions in spending authority of various types, which are summarized in Tables III-6 and III-7, assume a 1987 sequestration of 6.2 percent for defense programs and 8.4 percent for nondefense programs. For defense programs in budget function 050, the required reduction in spending authority (new budget authority and unobligated balances) would amount to $21.1 billion to achieve outlay savings of $10.7 billion. This defense outlay reduction is lower than one-half of the $22.6 billion required because the savings from eliminating automatic spending increases for federal retirement programs--including military retirement--are counted in the income security function and are shown in the nondefense savings table.

For nondefense programs, the required reduction in spending authority would amount to $35.8 billion to produce $11.9 billion in outlay savings. The spending authority includes new budget authority, new direct loan obligations, new loan guarantee commitments, obligation limitations, and other spending authority for 1987. The outlay savings include $0.8 billion in estimated 1988 outlay reductions for Commodity Credit Corporation farm

TABLE III-5. SEQUESTRATION PERCENTAGE REDUCTIONS UNDER ALTERNATIVE BASE LEVEL DEFICIT ESTIMATES FOR 1987 (In billions of dollars)

Base Level Deficit	Excess Deficit	Sequestration Percentage [a] Defense Programs	 Nondefense Programs
194	50	14.2	20.9
184	40	11.3	16.3
174	30	8.4	11.8
164	20	5.5	7.2
154	10	2.6	2.6

SOURCE: Congressional Budget Office.

a. Assumes no changes in the sequestration outlay base for defense and nondefense programs from those shown in Table III-4, and no changes in the savings from eliminating automatic spending increases and from applying special rules for Medicare and other programs.

price-support programs, which would be credited toward a 1987 sequestration. In most instances, additional outlay savings will be gained in 1987 and later fiscal years as the result of eliminating the 1987 cost-of-living adjustments and canceling 1987 budget authority. These savings, however, have not been calculated for this report.

TABLE III-6. ILLUSTRATIVE SEQUESTRATION FOR DEFENSE PROGRAMS FOR 1987 (In billions of dollars)

Budget Function 050	Spending Authority a/	Estimated Outlays
Department of Defense--Military		
Military personnel	4.3	4.2
Operation and maintenance	4.7	3.7
Procurement	8.5	1.1
Research, development, test, and evaluation	2.2	1.2
Military construction	0.5	0.1
Family housing and other	0.3	0.2
Subtotal, DoD	20.5	10.4
Atomic Energy Defense Activities	0.5	0.3
Other Defense-related Activities b/	0.1	c/
Total	21.1	10.7

SOURCE: Congressional Budget Office.

NOTE: Calculated using the CBO February economic forecast for 1987.

a. Includes new budget authority for 1987 and unobligated balances from budget authority provided in previous years.

b. Includes the budget function 050 portion of Federal Emergency Management Agency budget accounts, which are reduced at the same rate as nondefense programs.

c. Less than $50 million.

TABLE III-7. ILLUSTRATIVE SEQUESTRATION FOR NONDEFENSE PROGRAMS FOR 1987 (In billions of dollars)

Budget Function		Spending Authority a/	Estimated Outlays
150	International Affairs	3.3	0.8
250	General Science, Space and Technology	0.8	0.5
270	Energy	1.2	0.3
300	Natural Resources and Environment	1.3	0.8
350	Agriculture	3.4	1.8b/
370	Commerce and Housing Credit	11.4c/	0.4
400	Transportation	3.5	0.8
450	Community and Regional Development	0.6	0.1
500	Education, Training, Employment, and Social Services	2.2	0.8
550	Health	0.9	0.6
570	Medicare	1.4	1.4
600	Income Security	2.7	1.8
650	Social Security	0.2	0.2
700	Veterans' Benefits and Services	1.4	0.4
750	Administration of Justice	0.6	0.5
800	General Government	0.5	0.5
850	General Purpose Fiscal Assistance	0.2	0.2
920	Allowances	0.1	0.1
	Total	35.8	11.9

SOURCE: Congressional Budget Office.

NOTE: Calculated using the CBO February economic forecast for 1987.

a. Includes new budget authority, new direct loan obligations, new loan guarantee commitments, obligation limitations, and other spending authority for 1987.

b. Includes $0.8 billion in estimated 1988 outlay savings for programs of the Commodity Credit Corporation.

c. Most of the sequestration is for new loan guarantee commitments for mortgage credit programs.

A sequestration of 6.2 percent for defense programs and 8.4 percent for nondefense programs for 1987 would be much more severe than these percentages imply. This is because calculations for the 1987 sequestration are based on 1986 postsequestration budget levels, with no adjustments for inflation or other factors. Combined with the 1986 sequestration percentage, the possible 1987 sequestration implies reductions from 1986 appropriation levels of 10.8 percent for defense programs and 12.3 percent for nondefense programs. The reduction in real terms would be even greater because of the loss of any adjustments for inflation in 1987.

The effect of sequestration on budget outlays for 1986 and 1987 is shown in Table III-8. The 1986 sequestration would lower total 1986 outlays

TABLE III-8. EFFECT OF SEQUESTRATION ON BUDGET OUTLAYS FOR 1986 AND 1987 (By fiscal year, in billions of dollars)

Category	1986	1987
National Defense a/		
CBO baseline excluding 1986 sequestration	275.0	293.1
CBO baseline including 1986 sequestration	269.5	284.0
1987 sequestration base level	269.5	276.5
1987 postsequestration level	269.5	265.9
Nondefense Programs b/		
CBO baseline excluding 1986 sequestration	618.1	639.4
CBO baseline including 1986 sequestration	612.2	632.2
1986 sequestration base level	612.2	626.3
1987 postsequestration level	612.2	615.2
Net Interest and Undistributed Offsetting Receipts c/		
CBO baseline excluding 1986 sequestration	104.8	110.8
CBO baseline including 1986 sequestration	104.5	109.1
1987 sequestration base level	104.5	108.4
1987 postsequestration level	104.5	107.5
Total Outlays		
CBO baseline excluding 1986 sequestration	997.9	1,043.3
CBO baseline including 1986 sequestration	986.1	1,025.3
1987 sequestration base level	986.1	1,011.2
1987 postsequestration level	986.1	988.6

SOURCE: Congressional Budget Office.

a. Budget function 050.

b. Budget functions 150 through 850 and 920.

c. Budget functions 900 and 950.

by $11.8 billion, from $997.9 billion to $986.1 billion. The 1986 sequestration also reduces CBO baseline outlays for 1987 by $18.0 billion, from $1,043.3 billion to $1,025.3 billion, because the sequestration of most budgetary resources is assumed to persist in later years. Another sequestration in 1987 of the size calculated by CBO would lower 1987 outlays by an additional $36.7 billion, to $988.6 billion. About $14.1 billion of this additional reduction represents eliminating the inflation and other adjustments to 1986 postsequestration levels made by CBO for its baseline projections. The remaining $22.6 billion is the size of the estimated excess deficit in 1987 using the Balanced Budget Act's specifications for estimating budget base levels. The effect of the possible 1987 sequestration would be to hold total outlays in that year to approximately the 1986 level.

The effects of sequestration on defense and nondefense program outlays are also shown in Table III-8. The 1986 sequestration reduces CBO baseline outlays for defense programs by $5.5 billion in 1986 and by $9.1 billion in 1987. Another sequestration of 6.2 percent in 1987 would reduce defense outlays by an additional $18.1 billion, bringing 1987 outlays $3.6 billion below the 1986 estimated level of $269.5 billion.

The reductions in new budget authority for defense programs are even more striking. The 1986 sequestration reduced new budget authority for the national defense function by $11.4 billion in 1986 and by $11.7 billion in 1987 from CBO baseline levels. A second sequestration of 6.2 percent would reduce new budget authority by another $30 billion in 1987, from $301 billion in CBO's baseline projections to $271 billion. This postsequestration level for 1987 defense budget authority is $49 billion below the Administration's request.

The reductions in outlays for nondefense programs are of similar magnitude as those for defense programs but are relatively smaller in percentage terms because of the exemptions for Social Security benefits and other nondefense programs. The 1986 sequestration has the effect of reducing CBO baseline outlays by $5.9 billion in 1986 and by $7.2 billion in 1987. A second sequestration of 8.4 percent in 1987 would reduce nondefense outlays by another $17.0 billion, bringing total nondefense outlays to within $3 billion of the 1986 level.

APPENDIX A

BASELINE CONCEPTS AND ASSUMPTIONS

Baseline budget projections are designed to show what federal government revenues and spending would be in future years if current policies were continued without change. This appendix details the assumptions used in preparing the baseline projections for this volume. The first section describes the revenue baseline and identifies tax provisions that are scheduled to expire during the 1986-1991 projection period. The other two sections explain the baseline projections for budget authority and outlays.

BASELINE REVENUES

Baseline revenues are, with four exceptions, revenues generated under existing tax law. In three of these instances, excise taxes dedicated to trust funds are assumed to be continued beyond their scheduled expiration:

- Taxes for the Hazardous Substance Response Trust Fund (Superfund) are assumed to be extended at the rates in effect when the taxes expired on September 30, 1985.
- Airport and Airway Trust Fund taxes are assumed to be extended at current rates beyond December 31, 1987.
- Highway Trust Fund taxes are assumed to be continued at current rates beyond September 30, 1988.

The Congressional Budget Office has also assumed, at the request of the House and Senate Budget Committees, that the reduction in the federal Civil Service Retirement contribution rate for recently hired workers is extended beyond April 30, 1986.

All other tax provisions that are scheduled to expire between 1986 and 1991 are assumed to do so as specified in law. Among the expiring provisions are the temporary cigarette tax increase enacted in the Tax Equity and Fiscal Responsibility Act of 1982 and subsequently extended through March 14, 1986, and the income tax deduction for charitable contributions by nonitemizers, which is scheduled to expire at the end of 1986. The expiring tax provisions with significant revenue effects, and their expiration dates, are listed in Table A-1.

TABLE A-1. TAX PROVISIONS THAT HAVE SIGNIFICANT REVENUE EFFECTS AND EXPIRE DURING THE 1986-1991 PERIOD

Provision						Date of Expiration
Revenue-Raising Provisions (Expiration of Provision Causes Revenues to Decline)						
Excise Taxes a/						
Cigarettes						March 14, 1986
Telephone						December 31, 1987
	1986	1987	1988	1989	1990	1991
Approximate Revenue Effect (in billions of dollars) b/	-1	-2	-3	-4	-4	-4
Revenue-Losing Provisions (Expiration of Provision Causes Revenues to Increase)						
Energy Tax Expenditures						
Carryover provision for the residential energy tax credit						December 31, 1987
Credit for small-scale hydroelectric facilities for which application has been docketed by the Federal Energy Regulatory Commission before January 1, 1986						December 31, 1988
Decrease in excise tax on newly discovered oil						December 31, 1988
Credit for certain long-term energy projects						December 31, 1990

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a. The CBO baseline assumes extension of Hazardous Substance Response, Airport and Airway, and Highway Trust Fund taxes. Therefore, the revenue loss from their expiration is not included here.

b. Excise tax estimates are net of offsetting income tax effects.

TABLE A-1. (Continued)

Provision	Date of Expiration
Other Tax Expenditures c/	
Deduction for charitable contributions for nonitemizers	December 31, 1986
Exclusion of interest on state and local small-issue industrial development bonds for nonmanufacturing purposes	December 31, 1986
Five-year depreciation of rehabilitation costs on low-income housing	December 31, 1986
Credit for employee stock ownership plans (ESOPs)	December 31, 1987
Tax credit for orphan drug research	December 31, 1987
ACRS for mass transit vehicles	December 31, 1987
Exclusion of interest on qualified mortgage bonds	December 31, 1987
Exclusion of interest on mortgage subsidy bonds and credit for mortgage certificates	December 31, 1987
Six-month holding period for long-term capital gains	December 31, 1987
Exclusion of interest on state and local small-issue industrial development bonds for manufacturing purposes	December 31, 1988

	1986	1987	1988	1989	1990	1991
Approximate Revenue Effect (in billions of dollars)	0	1	6	8	8	9
Net Revenue Effect of All Expiring Provisions (in billions of dollars)	-1	-1	3	4	4	5

SOURCE: Congressional Budget Office.

c. The CBO baseline assumes continuation of the reduction in the federal Civil Service Retirement contribution rate beyond April 30, 1986. Therefore, the revenue gain from its expiration is not shown here.

OVERVIEW OF BASELINE SPENDING CONCEPTS

Baseline spending projections are designed to show what federal government budget authority and outlays would be in future years if current policies were continued without change. The basic methodology for projecting the different types of spending--direct spending programs and discretionary appropriations--is summarized in this section of the appendix. The final section discusses assumptions that differ from the basic methodology.

Federal spending can be divided into two categories. A large part of federal spending is mandated by existing law and is referred to as direct spending. The remainder is subject to annual review through the appropriation process.

Direct Spending

The term direct spending refers to four types of spending that are, in effect, mandatory under existing law: permanent appropriations and trust funds; appropriated entitlements; permanent revolving funds; and offsetting receipts. To affect spending in these programs, the basic substantive law usually must be changed. The baseline spending projections for these programs assume that existing law will continue unchanged, and that future spending will respond to assumed economic and population changes, in essentially the same way as in the past.

The baseline projections for direct spending programs reflect the sequestering of 1986 spending authority as required by the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177). For programs with cost-of-living adjustments (COLAs), sequestering the 1986 COLA reduces outlays throughout the projection period. For revolving loan funds with an appropriated loan limit, the reduction of the 1986 loan level also reduces the loan levels projected for 1987 to 1991. For other direct spending programs, 1987 spending authority is assumed to return to presequestration levels, and there is no long-run reduction in outlays.

When programs are jointly administered by the federal and state governments (for example, unemployment compensation and Aid to Families with Dependent Children), the projections assume that the states will set eligibility rules and benefit levels in the future in the same manner as they have in the past. In some direct spending programs, the law gives the Administration some freedom of action. For example, the Administration has some discretion in setting hospital reimbursement rates in Medicare, in determining the amount of loan assets sold to the Federal Financing Bank, and in scheduling the auction of leases for lands on the Outer Continental Shelf. In such cases, the baseline generally assumes that the Administration will carry out its most recently announced intentions.

Permanent Appropriations and Trust Funds. In some instances, authority to spend may be provided directly in the legislation that authorizes a program, without the need for subsequent annual appropriations. Examples of such direct spending programs include Medicare, Social Security, and interest on the public debt.

Appropriated Entitlements and Other Mandatory Appropriations. Some benefit programs, called appropriated entitlements, have their budget authority provided in annual appropriations. Examples of appropriated entitlements include Medicaid, Supplemental Security Income, Aid to Families with Dependent Children, and the veterans' compensation and pension programs. The basic legislation for these programs requires the payment of benefits to any person or government meeting the eligibility requirements. The level of spending is mandated in these cases by existing law and cannot be effectively controlled through the appropriation process.

In addition, certain appropriated accounts are treated as mandatory for projections purposes, even though the House and the Senate Budget Committees do not both consider them entitlements. The list of mandatory items is that used in the so-called bipartisan baseline, which served as the basis for developing the 1983 budget resolution. The projections for the Food Stamp program, for example, are computed as if the program were mandatory, since the Congress has always appropriated enough money to cover all benefit payments to eligible recipients. Other programs treated as mandatory include child nutrition, unemployment trust fund outlays for training and employment services and for administrative expenses, payments to air carriers, Maritime Administration operating differential subsidies, rehabilitation services, government payments for annuitants' health benefits, payments in lieu of taxes, and certain miscellaneous trust funds. Some federal payments to Civil Service Retirement and other trust funds, while considered mandatory, are exactly offset by corresponding intragovernmental receipts and have no effect on total outlays.

Revolving Loan Funds. The federal government administers many lending programs through revolving funds. Such funds disburse loans and accept repayments of principal and interest. CBO calculates a baseline for such programs by first developing a lending level for each year of the projections. For fiscal years in which the Congress has set a lending limit, CBO uses that limit (reduced in accordance with the Balanced Budget Act) as a base for projections. If no limit has been set, CBO estimates the base-year lending level to be equal to average program experience over the past few years, adjusted for inflation. For subsequent years in which the Congress has yet to set a ceiling, CBO projects a baseline lending level by inflating the base-year level. Net budget authority and outlays are estimated using these lending levels, projected loan repayments, and established government accounting practices for revolving funds.

Offsetting Receipts. Certain receipts from the public resulting from the federal government's business-type activities and certain intragovernmental receipts are automatically credited to special receipt accounts and are treated as negative spending. They are deducted from other budget authority and outlays in computing budget totals rather than being counted as revenues. Examples of such receipts include those from premiums for Supplementary Medical Insurance, from the sale of timber in national forests, and from rents and royalties from Outer Continental Shelf lands. In the baseline projections, the amount of these receipts is estimated on the assumption that current government policies regarding the extent of timber sales, the scope and timing of offshore leasing activities, and so forth, will be continued, and that actual receipts will respond to underlying economic and demographic conditions, such as the prices of lumber and oil and the number of Medicare enrollees.

Annual Appropriations

The rest of federal spending is controlled by and requires annual action through the appropriation process. The fiscal year 1986 spending level assumed for these programs is that enacted by the Congress through December 1985 and reduced according to the provisions of the Balanced Budget Act. Because the sequestration of budgetary resources permanently cancels budget authority, the 1986 appropriation is the postsequestration amount. The 1987-1991 projections for the appropriated accounts represent a continuation of the program levels embodied in the 1986 appropriation, which is taken as the most current indication of Congressional policy.

For most appropriated accounts, future budget authority is assumed to stay constant in real terms--that is, to keep pace with a measure of inflation appropriate to the particular budget account. In a few instances, the baseline budget authority is the estimated amount required to achieve specified program objectives--for example, a fill rate for the Strategic Petroleum Reserve. Where the 1986 appropriation reflects the availability of unobligated balances, the 1986 projection base is assumed to be the 1986 program level--that is, 1986 budget authority plus activity financed by available balances. Where 1986 funds have been deferred until 1987, the 1987 baseline budget authority is reduced to reflect the availability of the deferred funds.

Although statutory authority for most discretionary programs will expire during the five-year projection period, authorizations are assumed to be routinely renewed except for programs that are clearly of a one-time nature, such as temporary study commissions. The projected growth in budget authority is limited by any authorization limit that may have been set by the Congress; if the limit ceases to apply in some future year, budget authority is assumed to rise with inflation thereafter. If the base-year appropriation exceeds the authorization, the projections also ignore the authorization limit, which is considered to have been rendered moot by the subsequent appropriation. It is further assumed that budget authority will result in outlays according to the observed historical pattern for the particular account.

SPECIAL ASSUMPTIONS FOR SPENDING

Most spending is projected using the baseline concepts and approaches described in the previous section of this appendix. This section provides further information for those budget accounts requiring special assumptions or methodology. Accounts projected using the standard techniques are not discussed.

National Defense (Function 050)

The defense baseline assumes that budget authority keeps pace with inflation--the same approach used generally for nondefense discretionary programs. Outlays in each year are CBO estimates of spending resulting from the assumed budget authority. The outlay estimates in 1986 for the military personnel accounts reflect the expected transfer of prior-year appropriations to fund pay raise and retirement costs. The budget authority and outlay projections for 1987-1991 assume that new funding is provided to maintain the 1986 military manpower levels. Also, the projection assumes no additional funding for defense-related loans of the Federal Financing Bank not resulting from current programs.

The two major components of the defense budget are federal employee pay and benefits (about one-third of 1986 budget authority) and purchases of goods and services (the remaining two-thirds). The inflation factor for federal employee pay and benefits is the assumed rate of pay increase; in the baseline, CBO assumes that federal employee wages are increased at the same rate as those in the private economy. The inflation factors for the other components of the defense budget are derived by projecting price changes in specific defense industries consistent with the baseline economic assumptions.

Baseline inflation rates for these two major components of defense spending and a composite rate for defense spending as a whole are shown in Table A-2. Because there is often a long lag between the obligation of

TABLE A-2. DEFENSE INFLATION RATES UNDER CBO BASELINE ASSUMPTIONS (By fiscal year, in percent)

Component	1986	1987	1988	1989	1990	1991
Budget Authority Inflation Rate						
Pay and Benefits	2.0	3.2	5.7	5.9	5.9	6.1
Purchases	3.1	3.6	4.0	4.1	4.1	4.1
Composite	2.8	3.4	4.6	4.7	4.7	4.8
Outlay Inflation Rate						
Pay and Benefits	2.0	3.2	5.7	5.9	5.9	6.1
Purchases	3.1	3.1	3.8	4.1	4.1	4.1
Composite	2.7	3.1	4.5	4.7	4.7	4.8

Source: Congressional Budget Office.

defense funds and the actual production of the defense goods, different inflation rates are computed for budget authority and outlays. For those procurement accounts whose budget authority will result in outlays over many years, the inflation rate for budget authority reflects projected changes in prices over the period during which the budget authority will be spent. The outlay inflation rate, on the other hand, reflects only price changes in the current year.

The defense baseline assumes that the number of people in active and reserve military service remains constant. For 1986 the Congress provided $67.7 billion in budget authority and $4.8 billion in transfer authority to fund the manpower program. The transfers would come from unobligated balances in other accounts to the extent necessary to fund the costs of the military pay raise that became effective October 1, 1985, and to fund the accrued costs of military retirement. The Defense Department has been paying these costs as if it will invoke the transfer authority, and CBO estimates 1986 outlays for the military personnel accounts on this assumption. The baseline projections assume that sufficient new budget authority will be provided in 1987 and thereafter to continue current manpower levels.

While CBO's defense baseline assumes no real growth in defense program levels, the Administration's current services projections assume the figures for defense budget authority in the 1986 Congressional budget resolution. This conceptual issue is discussed in Chapter II of this volume. CBO and the Administration also differ in their estimates of the amount of outlays resulting from a given level of defense budget authority. These technical estimating differences will be discussed in detail in CBO's forthcoming report, *An Analysis of the President's Budgetary Proposals for Fiscal Year 1987*.

International Affairs (Function 150)

Contributions to Multilateral Development Banks. The United States and other donor countries periodically enter into agreements providing additional resources for the multilateral development banks. The replenishment agreement, as it is called, can extend over a number of years, with annual appropriations as partial payments. Once signed, the agreement is treated as binding. If one year's appropriation is less than the scheduled contribution, the difference is included in subsequent budget requests until the full amount is provided. Arrearages, or the difference between the requested amount and the postsequestration amount provided in the continuing resolution (Public Law 99-190), are assumed to be provided in fiscal year 1987. The projections assume that future replenishments of paid-in capital and contributions to the concessional lending windows of the regional banks will be negotiated with the same terms and conditions that are in the most recent replenishments, but with no real growth in funding levels.

Public Law 480 Food Assistance Program. The Public Law 480 food assistance program is projected using the postsequestration obligation levels contained in the continuing resolution as the base. Budget authority equals the new appropriations required to finance the program, and outlays equal gross disbursements less receipts credited to the account.

International Monetary Fund. The United States has been a member of the International Monetary Fund (IMF) since the Bretton Woods Agreement in 1944 and has participated in every increase in IMF resources since then. Quota subscriptions have been raised roughly every five years, with the most recent increase in fiscal year 1984. The baseline assumes another increase in fiscal year 1989 equal to an amount sufficient to maintain the real level of the current U.S. quota subscription. No increase in the General Arrangement to Borrow is projected. Dollar transfers with the IMF are treated by the Treasury as an exchange of international reserve assets and are not counted as net budget outlays, although they do affect the Treasury's cash position and borrowing requirements.

Guarantee Reserve Fund. In fiscal year 1981, the Congress ceased appropriating an amount equal to a portion of guaranteed foreign military credits as a reserve for problem loans. Funds appropriated as reserves in earlier years were consolidated in a revolving fund to make payments on rescheduled loans and defaults. By 1984 the fund had been reduced to a point requiring replenishment. The Administration requested appropriations sufficient to maintain a reserve of 2 percent of the contingent liability, but the Congress provided less than the requested amount. The projections assume appropriations will be required to meet the estimated outlays from the fund after fiscal year 1987.

Special Defense Acquisition Fund. Net outlays are estimated by projecting the limits on new obligations contained in appropriation acts.

Export-Import Bank. Direct loan obligations are estimated to equal the direct loan limits throughout the projections period. Budget authority measures potential borrowing requirements resulting from bank activity. It equals direct loan obligations less direct loan cancellations, loan repayments, and bank net income, plus redemption of debt and any change in the balance of unobligated borrowing authority available to the bank. Outlays equal gross disbursements less collections.

General Science, Space, and Technology (Function 250)

Spending in this function is projected using the general baseline concepts previously described.

Energy (Function 270)

Tennessee Valley Authority and Bonneville Power Administration. These two accounts are funded by permanent indefinite borrowing authority subject to a cap. The baseline projection of budget authority for these accounts is an estimate of the borrowing authority required to finance their capital investments. The outlay projections are CBO's best estimate of capital spending net of receipts. All operating expenses are assumed to be covered by revenues from ratepayers.

Uranium Enrichment. The baseline projection for this account reflects the difference between the program's spending and receipts. CBO's projection of budget authority assumes that the Congress will continue to appropriate an amount equal to the program's estimated receipts in each year. Receipts from civilian customers are projected on the basis of current prices and anticipated sales. The projection of intragovernmental receipts from the defense atomic energy program is based on the amount appropriated in 1986, adjusted for inflation in future years.

Sale of Minerals and Mineral Products. This is an offsetting receipt account, to which are credited the receipts from the sale of oil and other petroleum products from the Naval Petroleum Reserves. The estimate of receipts is based on the estimated price of oil, the rate of production from the reserves, and an estimate of receipts generated from the sale of other petroleum products. For 1986, the estimate includes the effect of transferring 30 percent of net receipts to the national defense budget function, as required by the Defense Authorization Act of 1985.

Nuclear Waste Fee. This account represents CBO's estimate of receipts collected from the fee imposed by the Nuclear Waste Policy Act of 1982. That law levies a fee of 0.1 cent per kilowatt hour on electricity generated by nuclear power plants. CBO bases its estimate on the output of completed units and on plants scheduled to being operation in each year. The estimate assumes that the fee remains constant through 1991.

Nuclear Waste Program. This account reflects spending by the Department of Energy to develop repositories for the disposal of high-level radioactive waste. CBO's projection of budget authority includes the amount that the department estimates will be needed each year to develop repositories in compliance with the procedural and scheduling requirements in the Nuclear Waste Policy Act of 1982. Funding for general support activities is projected to continue at the 1986 level, adjusted for inflation in future years.

Clean Coal Technology Reserve. The Congress established a $400 million Clean Coal Technology program in the 1986 continuing resolution. The funds for this program were made available by transfer from the Energy Security Reserve: $100 million in 1986, $150 million in 1987, and $150 million in 1988. The baseline projection assumes that the Congress will continue to fund the Clean Coal program at the 1988 level, adjusted for inflation, in fiscal years 1989-1991. The baseline projection also assumes that the relation between outlays and budget authority will be similar to that for comparable federal research programs.

Strategic Petroleum Reserve. The Congress has created two accounts for the Strategic Petroleum Reserve: one that funds operation and construction of the reserve and one that funds oil acquisition. The baseline estimate for operation and construction assumes that the planned reserve of 750 million barrels is completed and maintained. The baseline projection for oil acquisition assumes purchasing and filling the reserve at a rate of 29,300 barrels per day throughout the 1986-1991 period. The fill rate for 1986 was determined by the Supplemental Appropriations Act of 1985 (Public Law 99-88), which specified that the reserve be filled to a level of 500 million barrels by the end of 1986. Assuming continued fill at the 1986 rate, the reserve will contain approximately 553 million barrels by the end of 1991. Projections for budget authority and outlays are derived using CBO's oil price assumptions.

Natural Resources and Environment (Function 300)

Fire Fighting. Several accounts in this function include money for fighting forest and range fires on federal lands. The responsible agencies generally cover their current fire-fighting costs by borrowing from other accounts and repaying the borrowed amount through a supplemental appropriation the following year. The 1986 base levels for these accounts have been increased to reflect the actual cost of fire fighting in 1985. The projections for 1987 through 1991 are based on average fire-fighting costs in the past five years, adjusted for inflation.

Construction Grants. In the 1986 continuing resolution (Public Law 99-190), the Congress appropriated $2.4 billion for the Environmental Protection Agency's construction grants program. Of that amount, only $600 million is immediately available for obligation, with the balance requiring release in a subsequent appropriation act. The CBO baseline assumes a base-year program level of $2.4 billion, reduced as required by the Balanced Budget Act. Outlay estimates assume that the $1.8 billion in 1986 appropriations not immediately available for obligation will not be obligated this year.

Agriculture (Function 350)

Commodity Credit Corporation. The baseline outlay estimates of activities of the Commodity Credit Corporation (CCC) are estimates of likely expenditures assuming the terms and conditions of the Food Security Act of 1985, expected Administration actions in implementing the legislation, and CBO projections of commodity prices and production. Target prices, loan rates, and terms of acreage reduction programs for the 1986 crops of wheat, feed grains, cotton, and rice have already been announced. Advance deficiency payments, which are required for the 1986 crops and have been set at 40 percent of estimated total deficiency payments, are also assumed to be made for the 1987 through 1991 crops. The milk production termination program, scheduled to begin on April 1, 1986, is assumed to reduce CCC net removals of surplus milk products to between 3.0 billion and 3.5 billion pounds milk-equivalent per year by the end of fiscal year 1987.

Commerce and Housing Credit (Function 370)

Periodic Census and Programs. The baseline is irregular because of the cyclical nature of the activities conducted by the Bureau of the Census. An adjustment is made to exclude one-time items (generally major capital expenditures) and to include future censuses required by law. The various major components are then adjusted for inflation after the base year.

Patent and Trademark Office. The baseline projection of budget authority is the difference between receipts and operating expenses for the Patent and Trademark Office, as estimated by CBO. The estimate of receipts is based on projected collections from license fees for jukeboxes and cable television. The operating expenses are projected from the 1986 base and assume a constant level of activity.

Transportation (Function 400)

Federal-Aid Highways. The Surface Transportation Assistance Act of 1982 (Public Law 97-424) specifies budget authority for the Interstate highway program at $4 billion each year through fiscal year 1989, and for the emergency relief program at $100 million through the projection period. Since budget authority for non-Interstate highway programs is provided by the law only through 1986, the baseline adjusts that level for inflation in future years. In 1986, appropriation action limited obligations to $12.75 billion; this level was subsequently reduced to $12.2 billion by the Balanced Budget Act. The baseline assumes that this ceiling is adjusted for inflation after 1986.

Washington Metropolitan Area Transit Authority (WMATA) Interest Payments. The federal government's share of interest payments due on WMATA's outstanding debt issue is projected to remain constant at $51.7 million through fiscal year 1990, as authorized by Public Law 96-184.

Interstate Transfer Grants. Until the end of fiscal year 1983, state and local governments could request withdrawal of a segment of the Interstate highway system in their area if they determined that it was not essential. If federal officials concurred, the state was then eligible to use the funds that would have been spent on the withdrawn segment for a transit project. The baseline includes the total outstanding cost of approved substitute transit projects--approximately $870 million at the beginning of fiscal year 1986.

Washington Metro. Public Law 96-184 authorized a total of $1.7 billion in federal funds for construction of the Washington metrorail system. A total of $957 million has been appropriated to date (including $217 million in fiscal year 1986), leaving $743 million to be appropriated.

Mass Transportation Capital Fund. The Surface Transportation Assistance Act of 1982 set aside one cent of the gasoline and diesel fuel excise tax for mass transportation purposes and provided budget authority for discretionary grants through 1986. The baseline adjusts that level for inflation in future years. The obligation ceiling of $1.0 billion for 1986 is also adjusted for inflation in the future.

Highway Safety Grants. Budget authority for state and community highway safety grants is established by law through fiscal year 1986 and is adjusted for inflation in the future. The obligation ceiling for 1986 is higher than the budget authority, and the baseline also adjusts that level for inflation. As a result, the obligation ceiling is projected to remain higher than the budget authority throughout the projection period.

Conrail Receipts. The federal government currently owns $851 million of Conrail debentures and $2.3 billion of preferred stock. Conrail is required to pay interest, dividends, and principal to the government when its net income reaches a certain level. CBO estimates that, under current law, payments to the federal government will begin in 1988.

Payments to Air Carriers. The Airline Deregulation Act of 1978 (Public Law 95-504) established a program to guarantee air transportation to certain communities by subsidizing air carriers. The Department of Transportation determines the required level of service and compensates the airlines accordingly. The act authorizes this program through October 1988.

Grants-in-Aid for Airports. Budget authority for fiscal years 1986 and 1987 is established for this program in the Airport and Airway Improvement Act of 1982 (Public Law 97-248) and the Surface Transportation Assistance Act of 1982. For fiscal years 1988 through 1991, 1987 budget authority is adjusted for inflation. Outlay estimates are based on obligation ceilings; the 1986 obligation ceiling of $885 million is adjusted for inflation in future years.

Operating Differential Subsidy. The Maritime Administration's operating differential subsidy program is designed to offset the higher costs of operating U.S.-flag vessels in foreign trade. The projection of budget authority represents the estimate of the federal government's liability under the contracts in force for the projection period, which depends on an assumed ship mix, trade routes, products carried, and number of ship-years.

Community and Regional Development (Function 450)

Disaster Assistance. Three major programs in this function help mitigate the effects of disasters on individuals, businesses, and local governments. Through these programs, the federal government provides flood insurance, loans to help restore damaged property, and grants to assist victims. Because of the unpredictable demand for these programs, baseline projections are based on weighted historical averages, adjusted for inflation and changes in regulations. Should additional funding be required, the Congress has repeatedly shown its willingness to provide needed emergency funds in supplemental appropriation bills.

In fiscal year 1986, disaster loan obligations of the Small Business Administration are capped by law at $600 million. CBO estimates that demand for these loans, primarily from farmers, exceeds this obligation ceiling. Consequently, loan volume increases sharply in fiscal year 1987 with the expiration of the ceiling. Loans increase again in fiscal year 1988, when new restrictions on eligibility for disaster loans from the Farmer's Home Administration take effect. The 1988 loan level is adjusted for inflation in fiscal years 1989 through 1991.

Education, Training, Employment, and Social Services (Function 500)

Corporation for Public Broadcasting. The Corporation for Public Broadcasting is advance funded; the fiscal year 1986 appropriations act provides funds for 1988. The baseline in 1986-1988 reflects the amount appropriated for those years. After 1988, the baseline is derived by inflating the 1988 appropriation by estimated price changes.

Health (Function 550)

No unusual assumptions apply to this function.

Medicare (Function 570)

Hospital Insurance. The Social Security Amendments of 1983 (Public Law 98-21) instituted a prospective reimbursement system for inpatient hospital services. Under this system, patients are classified into 468 diagnosis-related groups (DRGs). After a three-year phase-in period, hospitals will be paid a fixed amount per DRG. The Secretary of Health and Human Services has, by regulation, frozen the 1986 reimbursement rates at their 1985 amounts. The President's 1987 budget reflects a 2 percent increase in the DRG rates for 1987. (The final decision on the 1987 increase will be made later this year, after the Secretary has considered the report of the Prospective Payment Assessment Commission.) For 1988 through 1991 the budget assumes that the DRG rates will be increased at the rate of increase of a market basket of goods and services purchased by hospitals. The CBO baseline assumes that the Secretary will implement the policies set forth in the budget.

Income Security (Function 600)

Pension Benefit Guaranty Corporation. The Pension Benefit Guaranty Corporation (PBGC) fund receives premium and interest income and pays benefits and administrative expenses. The net outlays of the fund grow through 1988. After 1988, net outlays are assumed to be negligible because it is assumed that the PBGC's assets are drawn down in an amount sufficient to make income equal expenditure. Alternatively, the PBGC could borrow up to $100 million from the Treasury or reduce benefit payments below guaranteed levels.

Subsidized Housing Programs. By the end of the projection period, large numbers of existing Section 8 rental assistance contracts will have expired. These are agreements that were made in 1976 and 1977 and were among the first Section 8 contracts written. The baseline contains an estimate of the funding that will be required to keep these assisted housing units under payment for another 15 years. These assumed renewals add about $20 billion to baseline budget authority in fiscal year 1991.

Nutrition Assistance for Puerto Rico. The Congress appropriated $820 million for Nutrition Assistance for Puerto Rico in 1986, $5 million short of the level authorized for the program under the Food Security Act of 1985. The baseline increases the 1986 appropriated amount to keep pace with higher food prices. Baseline levels remain slightly under the amounts authorized for 1987 and 1988 and equal the authorization levels in 1989 and 1990. If the authorization levels were interpreted as mandatory floors as well as ceilings, baseline spending for Nutrition Assistance for Puerto Rico would be $12 million higher over the 1986-1988 period.

Refugee and Entrant Assistance. The projections for cash and medical assistance to refugees are based on the projected State Department ceiling of the number of refugees allowed to enter the United States. These costs are projected to decrease because of a decline in the number of refugees entering the country. The other programs of refugee assistance are held constant in real terms.

Social Security (Function 650)

The Balanced Budget and Emergency Deficit Control Act of 1985 removed the receipts and disbursements of the Old-Age and Survivors Insurance and Disability Insurance trust funds from the budget. Payments to the trust funds for such items as military service wage credits, coverage of certain uninsured beneficiaries, Self-Employment Contribution Act tax credits, and income tax liabilities derived from the taxation of Social Security benefits remain on-budget.

Veterans' Benefits and Services (Function 700)

Veterans' Compensation. The veterans' and survivors' compensation program is not indexed for inflation by law, but benefit levels historically have been adjusted through annual legislation to cover increases in the cost of living. The CBO baseline assumes that future increases in compensation will be enacted at the same percentage rate as for Social Security and veterans' pensions and will be effective on December 1 of each year, as they were in 1984 and 1985.

Veterans' Readjustment Benefits. These programs are not indexed by law and receive legislated increases in benefit levels only sporadically. Because the timing and amount of future legislated increases cannot be predicted with any degree of confidence, the baseline for these accounts assumes no change in the current nominal benefit rates. The baseline assumes that the Peacetime Educational Benefits program will expire as scheduled on June 30, 1988, at which time the operation of the Post-Vietnam Era Educational Assistance program will resume.

Loan Guaranty Revolving Fund. This entitlement program guarantees loans made by private lenders to veterans who meet the financial qualifications. The baseline outlays for the fund reflect the net default costs resulting from foreclosures of guaranteed loans. Baseline budget authority projections represent the amounts of any appropriations estimated to be required to ensure the solvency of the fund. Under current law, an origination fee of 1 percent of the loan principal is required on new loans guaranteed for non-service-disabled veterans. Authority for this fee is scheduled to expire after September 30, 1987. The CBO baseline assumes that the authority to impose this fee will be extended throughout the projection period.

Administration of Justice (Function 750)

The 1987 baseline budget authority for several accounts in this function exceed the 1986 appropriation by more than the rate of inflation because of additional spending requirements imposed by recent legislation, including the Comprehensive Crime Control Act, the Bankruptcy Amendments and Federal Judgeship Act, and the Pretrial Services Act.

General Government (Function 800)

Official Mail Costs. Congressional postage fees are paid out of this account. CBO's projection of mail costs is based on estimated usage and reflects historical patterns.

Federal Buildings Fund. This revolving fund finances the real property operations of the government. Space and services are provided to agencies by the General Services Administration (GSA), which is reimbursed by the agencies. Obligations and disbursements from the fund are subject to limitations on the availability of revenue imposed through the appropriation process. CBO's estimate of outlays is based on the sum of estimated outlays for property management and estimated receipts from the collection of standard-level user charges from agencies. By law, the user charges paid by agencies to GSA are supposed to approximate commercial charges for comparable space and services. Administrative action by the Office of Management and Budget limited user charges in fiscal year 1986 to the rates in effect for 1985. The baseline projections assume that user charges will be set at 85 percent of commercial equivalent rates in 1987 and will increase to 100 percent of commercial equivalent rates by 1989.

Compact of Free Association. The Compact of Free Association provides that the United States will make payments to the Federated States of Micronesia and the Republic of the Marshall Islands over the next 15 years. While the compact was signed into law in January 1986, the President has discretion in determining when the payments will begin. The baseline assumes that the first-year payments required by the compact will be made in a 1986 supplemental appropriation.

General Purpose Fiscal Assistance (Function 850)

Miscellaneous Permanent Appropriations for the Forest Service and Minerals Management Service. Certain percentages of the federal government's receipts from leasing rights and logging on federal land are paid to local units of government. CBO projections for these permanent appropriations are therefore based on estimated timber and mineral receipts, which are recorded in budget function 300.

General Revenue Sharing. Budget authority for payments to local governments under the general revenue sharing program has been authorized at $4.6 billion annually through 1986, although the 1986 appropriation was lower. The baseline assumes that the program will be continued at the previously authorized level in 1987 through 1991.

Net Interest (Function 900)

The net interest function comprises interest on the public debt, interest received by certain trust funds, and other interest. The methodology for projecting net interest costs is described in a CBO special study, *Federal Debt and Interest Costs* (September 1984).

Allowances (Function 920)

The baseline projections for this function contain budget authority and outlays resulting from assumed pay rate increases for all federal employees of civilian agencies. The projections assume pay rate increases equal to the annual rate of growth in private-sector pay--3.3 percent in October 1986, 5.8 percent in October 1987, 5.9 percent in October 1988, 5.9 percent in October 1989, and 6.1 percent in 1990. CBO assumes that additional appropriations are provided to cover these increases and that federal agencies will not be required to absorb any of the cost.

The baseline projections also assume expiration of Section 301(b) of the Omnibus Budget Reconciliation Act of 1982, which changed the determination of hourly rates for certain white-collar employees for fiscal years 1984 and 1985. Since October 1985, an employee's hourly rate of pay has been derived by dividing the annual rate of pay by 2,080 hours.

Uniformed military employees of the Coast Guard and of other civilian agencies received a pay increase of 3.0 percent in October 1985, and some blue-collar employees received a 3.5 percent increase during the first quarter of fiscal year 1986 (owing to the three-month delay of the 1985 increase). As a result, civilian agencies will incur costs of about $30 million for the adjustment for uniformed employees and about $3 million for the carry-over adjustment for blue-collar employees. The baseline does not assume enactment of any supplemental appropriation to cover these increases.

Undistributed Offsetting Receipts (Function 950)

Employer's Share, Employee Retirement. The government's contribution to federal employee retirement plans is assumed to grow in proportion to assumed pay rate increases and scheduled increases in contribution rates.

Outer Continental Shelf Receipts. Outer Continental Shelf (OCS) receipts consist of cash bonus bids from lease sales, annual rental payments, royalties on oil and gas production, and payments to the federal government resulting from the release of disputed OCS receipts from escrow accounts. Bonus receipts for fiscal years 1986 and 1987 are estimated on a sale-by-sale basis, reflecting bonus bids on previous offerings in the area in which a sale will occur, the Minerals Management Service (MMS) estimate of oil and gas reserves in the sale area, and CBO oil and gas price assumptions. Bonus receipts for subsequent years are assumed to remain at the 1987 level. Escrow releases are dependent on resolution of various court cases and negotiations between nonlitigating states and the Secretary of the Interior; timing of those releases is estimated based on information from the Department of the Interior and from the states concerned. Royalty receipt estimates are based on MMS projections of oil production and CBO projections of gas production and oil and gas prices.

APPENDIX B

BASELINE SPENDING AND CREDIT PROJECTIONS BY BUDGET FUNCTION

Five broad categories of outlays--defense, entitlements and other mandatory spending, nondefense discretionary spending, net interest, and offsetting receipts--used in the body of this report are designed to reflect the way in which the Congress has approached spending decisions in recent budget resolutions. In this appendix, federal spending and credit projections are classified according to 21 budget functions.

The Congressional Budget Act of 1974 requires the Congress to include estimates of budget authority and outlays for each major budget function in its annual budget resolutions. The functional classification is a means of presenting spending estimates in terms of the broad national needs that federal programs are intended to address. Within a function, the programmatic objectives may be achieved in a variety of ways, including spending from Congressional appropriations, loans to private borrowers, and spending from earmarked trust funds.

National needs are grouped into 18 broad budget functions ranging from national defense, international affairs, energy, and agriculture programs to education, health, income security, and general purpose fiscal assistance to state and local governments. The three remaining functions--net interest, allowances, and undistributed offsetting receipts--do not address national needs but are included to make the budget complete.

Some outlays are excluded from the on-budget totals by law. The Balanced Budget and Emergency Deficit Control Act of 1985 provides that the outlays (and revenues) of the Social Security trust funds are to be excluded from the on-budget aggregates. Outlays for the Social Security retirement, survivors, and disability programs are classified in budget function 650. Most spending in this function--representing the outlays of the Old-Age and Survivors Insurance and Disability Insurance trust funds for benefit payments, administrative expenses, and other miscellaneous costs--is treated as off-budget. Off-budget outlays in net interest (function 900) reflect the interest earned by the Social Security trust funds on their investments in Treasury securities, while the off-budget portion of function 950 (undistributed offsetting receipts) reflects the payroll tax paid by federal government agencies on behalf of workers covered under the program.

Since 1980, Congressional budget resolutions have also included a separate credit budget. The spending budget, which generally operates on a cash flow basis, cannot accurately reflect the full impact of federal budgetary policies on the allocation of credit in the U.S. economy. In the spending budget, loans are recorded on a net basis--that is, new loans less repayments. Loan guarantees do not appear at all except in the case of a default. The credit budget remedies some of these shortfalls by presenting the gross amounts of new loans and loan guarantees. Most credit budget activity is concentrated in a few budget functions: international affairs, agriculture, commerce and housing credit, education, and veterans' programs.

The CBO baseline projections for budget authority, outlays, and credit are presented by budget function in Tables B-1, B-2, and B-3, respectively. The projection period is fiscal years 1987 through 1991.

TABLE B-1. CBO BASELINE BUDGET AUTHORITY PROJECTIONS BY FUNCTION (By fiscal year, in billions of dollars)

Budget Function	1986 Base	Projections				
		1987	1988	1989	1990	1991
050 National Defense	286.8	300.9	314.7	329.5	345.0	361.5
150 International Affairs	18.9	20.2	20.8	24.4	20.9	21.7
250 General Science, Space, and Technology	8.8	9.3	9.7	10.2	10.7	11.2
270 Energy	-1.1	5.2	5.7	6.0	6.3	6.7
300 Natural Resources and Environment	12.6	12.9	13.3	13.7	14.2	14.6
350 Agriculture	31.4	23.8	26.3	25.3	20.4	16.3
370 Commerce and Housing Credit	10.0	10.9	11.3	9.4	11.7	10.5
400 Transportation	28.1	29.1	29.8	30.6	31.3	32.5
450 Community and Regional Development	7.0	6.9	8.4	8.5	9.0	9.0
500 Education, Training, Employment, and Social Services	30.3	31.9	33.3	34.7	36.1	37.7
550 Health	36.4	38.4	41.0	43.6	46.3	49.2
570 Medicare	86.7	83.6	92.2	102.1	112.1	122.3
600 Income Security	156.2	163.9	171.5	176.4	184.7	217.7
650 Social Security						
On-budget	4.8	5.5	6.2	6.9	6.9	6.1
Off-budget	194.7	221.1	250.6	274.0	303.0	332.3
Subtotal	199.5	226.6	256.7	280.9	310.0	338.4
700 Veterans' Benefits and Services	27.3	27.6	28.2	28.5	28.9	29.5
750 Administration of Justice	6.8	6.9	7.1	7.2	7.3	7.5
800 General Government	5.9	5.7	5.9	5.8	6.2	6.3
850 General Purpose Fiscal Assistance	5.4	6.6	6.6	6.7	6.8	6.9
900 Net Interest						
On-budget	142.8	149.5	160.5	166.2	170.5	175.1
Off-budget	-4.2	-4.6	-6.2	-8.6	-11.4	-14.8
Subtotal	138.6	145.0	154.4	157.6	159.1	160.3
920 Allowances	0.0	1.0	3.0	5.1	7.4	9.9
950 Undistributed Offsetting Receipts						
On-budget	-31.3	-32.7	-36.0	-36.8	-37.6	-39.7
Off-budget	-2.9	-3.2	-3.8	-4.3	-5.0	-5.6
Subtotal	-34.2	-35.9	-39.8	-41.1	-42.6	-45.4
ON-BUDGET	873.8	907.2	959.6	1,004.0	1,045.0	1,112.3
OFF-BUDGET	187.6	213.3	240.6	261.1	286.6	311.9
TOTAL	1,061.4	1,120.5	1,200.3	1,265.2	1,331.6	1,424.2

TABLE B-2. CBO BASELINE OUTLAY PROJECTIONS BY FUNCTION
(By fiscal year, in billions of dollars)

Budget Function	1986 Base	Projections				
		1987	1988	1989	1990	1991
050 National Defense	269.5	284.0	296.4	310.9	326.9	343.9
150 International Affairs	17.1	15.3	15.8	15.8	16.0	16.6
250 General Science, Space, and Technology	8.9	9.1	9.4	9.8	10.3	10.8
270 Energy	4.2	5.2	5.3	5.3	5.4	5.6
300 Natural Resources and Environment	12.8	13.1	14.1	13.9	14.0	14.3
350 Agriculture	30.4	23.2	24.7	21.1	15.8	12.9
370 Commerce and Housing Credit	4.2	4.0	5.3	3.6	3.6	2.3
400 Transportation	27.5	27.4	27.4	28.1	28.8	29.6
450 Community and Regional Development	7.9	7.7	7.8	8.0	8.0	8.3
500 Education, Training, Employment, and Social Services	30.8	30.9	32.2	33.4	34.8	36.3
550 Health	35.6	38.5	40.9	43.2	46.0	48.9
570 Medicare	68.4	75.3	84.6	94.8	106.2	119.0
600 Income Security	119.6	124.1	130.6	135.2	140.5	148.2
650 Social Security						
On-budget	8.1	5.5	6.2	6.9	6.9	6.1
Off-budget	191.5	206.0	220.1	234.8	251.3	269.8
Subtotal	199.5	211.6	226.3	241.7	258.2	275.9
700 Veterans' Benefits and Services	26.7	27.0	27.8	28.1	28.5	29.2
750 Administration of Justice	6.8	7.0	7.1	7.3	7.4	7.5
800 General Government	6.0	5.7	5.9	5.9	6.2	6.3
850 General Purpose Fiscal Assistance	5.8	6.2	6.6	6.7	6.8	6.9
900 Net Interest						
On-budget	142.8	149.5	160.5	166.2	170.5	175.1
Off-budget	-4.2	-4.6	-6.2	-8.6	-11.4	-14.8
Subtotal	138.6	145.0	154.4	157.6	159.1	160.3
920 Allowances	0.0	1.1	3.2	5.5	8.0	10.7
950 Undistributed Offsetting Receipts						
On-budget	-31.3	-32.7	-36.0	-36.8	-37.6	-39.7
Off-budget	-2.9	-3.2	-3.8	-4.3	-5.0	-5.6
Subtotal	-34.2	-35.9	-39.8	-41.1	-42.6	-45.4
ON-BUDGET	801.7	827.0	875.7	912.9	952.8	998.5
OFF-BUDGET	184.4	198.3	210.2	221.9	234.9	249.4
TOTAL	986.1	1,025.3	1,085.9	1,134.9	1,187.7	1,247.9

TABLE B-3. CBO BASELINE CREDIT PROJECTIONS BY BUDGET FUNCTION (By fiscal year, in billions of dollars)

Budget Function			1985 Actual	1986 Base	Projections 1987	1988	1989	1990	1991
050	Defense	DL	1.5	0.5	0.0	0.0	0.0	0.0	0.0
150	International Affairs	DL	8.0	8.7	8.7	9.0	9.3	9.6	10.0
		PG	8.2	11.8	12.2	12.8	13.3	13.8	14.4
270	Energy	DL	4.1	2.1	2.1	2.2	2.2	2.3	2.4
		PG	a/	0.0	0.0	0.0	0.0	0.0	0.0
300	Natural Resources and Environment	DL	a/	a/	a/	a/	a/	a/	a/
		PG	0.0	0.0	0.0	0.0	0.0	0.0	0.0
350	Agriculture	DL	15.2	19.9	14.3	12.0	11.3	10.0	9.4
		PG	3.8	7.1	8.0	8.5	8.6	8.8	8.9
370	Commerce and Housing Credit	DL	5.7	5.0	5.1	5.2	5.6	5.6	5.7
		PG	51.2	57.7	40.5	42.2	43.[illegible]	45.6	47.4
400	Transportation	DL	a/	0.7	0.5	a/	a/	a/	a/
		PG	a/	a/	a/	a/	a/	a/	a/
450	Community and Regional Development	DL	1.3	1.4	1.7	2.3	2.2	2.3	2.4
		PG	0.1	a/	a/	a/	a/	a/	a/
500	Education, Training, Employment, and Social Services	DL	1.3	1.5	1.5	1.5	1.5	1.4	1.4
		PG	8.9	10.0	10.5	10.7	10.9	11.1	11.2
550	Health	DL	a/	a/	a/	a/	a/	a/	a/
		PG	a/	a/	a/	a/	a/	a/	a/
600	Income Security	DL	14.1	1.5	1.8	1.9	1.5	1.5	1.3
		PG	0.0	0.0	0.0	0.0	0.0	0.0	0.0
700	Veterans' Benefits and Services	DL	1.1	1.4	1.5	1.4	1.3	1.1	1.0
		PG	12.1	12.1	16.3	16.9	17.5	18.1	15.1
	TOTAL	DL	52.8	42.8	37.5	36.1	35.1	34.1	33.9
		PG	84.7	94.4	88.1	91.6	94.7	97.9	97.6

NOTES: DL = Net direct loan obligations.
PG = Primary loan guarantee commitments.

a. Less than $500 million.

APPENDIX C

FEDERAL RECEIPTS AND EXPENDITURES IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS

Both the budget and the federal sector of the National Income and Product Accounts (NIPA) measure the receipts and expenditures of the federal government. The national income accounts measure current income and production and are the most widely used indicator of current economic activity. As a rule, the NIPA federal sector is more useful than the budget for analyzing the economic impact of federal government activity. The NIPA estimates of federal government activity differ from those of the budget in four ways: timing of transactions, netting and grossing of receipts against spending, treatment of financial activities, and coverage.

Timing differences occur because the budget records transactions (except interest owed to the public) on a cash-paid or cash-received basis, while the NIPA federal sector may use a cash, accrual, or other basis, depending on the type of transaction. On the receipts side, the most important timing difference is the recording of corporate profit taxes in the NIPA at the time the tax liability is incurred, which may be months (or years) before the money is deposited in the Treasury. On the expenditure side, the only major timing difference is that some large defense purchases are recorded in the NIPA at the time of delivery rather than at the time payment is made. Other timing differences are generally small.

Differences in netting and grossing arise because the budget treats certain types of receipts as offsets to outlays. For example, employing-agency payments to the Civil Service Retirement Trust Fund and other federal employee benefit plans are counted as a negative outlay in the budget, exactly offsetting agency expenditures elsewhere. In the NIPA, this amount is added to both receipts and expenditures in order to provide a more accurate measure of personal income and outlays. In the benchmark revision of the NIPA, government contributions to military retirement are treated the same as contributions for civilian employees. Other netting and grossing adjustments in the NIPA are made for funds collected by the government in the course of business-type transactions--such as veterans' insurance programs, timber sales, and rents and royalties arising from the Outer Continental Shelf leases.

Lending transactions that involve only the transfer of existing assets and liabilities are generally excluded from the NIPA federal sector, since they do not reflect current production of goods or services. For example, direct lending by the Small Business Administration is reflected in the budget but is excluded from the NIPA. Interest paid or received in the course of financial transactions, though, is reflected in the NIPA federal sector. The NIPA also records nonrecourse agricultural commodity loans as purchases of goods and services rather than loans.

Coverage differences largely reflect the exclusion of Puerto Rico, the Virgin Islands, and other territories for purposes of computing the gross national product and related data series in the NIPA.

The major differences between the budget and the federal sector in the NIPA are detailed in Table C-1. Table C-2 shows estimates of federal-sector receipts and expenditures on a NIPA basis, consistent with the CBO baseline budget projections.

TABLE C-1. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR OF THE NATIONAL INCOME AND PRODUCT ACCOUNTS
(By fiscal year, in billions of dollars)

	1985 Actual	1986 Base	1987	1988	1989	1990	1991
			Receipts				
Total Revenues [a]	734	778	844	921	991	1,068	1,144
Government Contributions for Employee Retirement	32	34	35	38	41	44	48
Medicare Premiums	6	6	7	7	8	8	9
Other Netting and Grossing	9	9	10	10	10	10	11
Geographic Exclusions	-2	-2	-2	-2	-2	-2	-2
Other	-6	-2	2	2	2	1	1
Federal Sector NIPA Receipts	773	823	896	976	1,050	1,129	1,209
			Expenditures				
Total Outlays [a]	946	986	1,025	1,086	1,135	1,188	1,248
Lending and Financial Transactions	-25	-11	-13	-12	-9	-8	-7
Government Contributions for Employee Retirement	32	34	35	38	41	44	48
Medicare Premiums	6	6	7	7	8	8	9
Other Netting and Grossing	9	9	10	10	10	10	11
Defense Timing Adjustment	1	3	4	4	4	4	4
Bonuses on Outer Continental Shelf Land Leases	2	1	1	3	2	1	1
Geographic Exclusions	-5	-5	-5	-6	-6	-6	-6
Other	-3	-1	0	1	0	0	0
Federal Sector NIPA Expenditures	963	1,022	1,064	1,132	1,185	1,242	1,307

SOURCE: Congressional Budget Office.

a. Includes on-budget and off-budget activities.

TABLE C-2. PROJECTIONS OF BASELINE REVENUES AND EXPENDITURES ON A NATIONAL INCOME AND PRODUCT ACCOUNTS BASIS
(By fiscal year, in billions of dollars)

	1985	1986	Projections				
	Actual	Base	1987	1988	1989	1990	1991
Personal Tax and Nontax Receipts	345	361	391	428	467	507	550
Corporate Profits Tax Accruals	68	86	107	116	124	128	130
Indirect Business Tax and Nontax Accruals	56	54	53	53	54	56	58
Contributions for Social Insurance	304	322	345	379	405	438	472
Total Receipts	773	823	896	976	1,050	1,129	1,209
Purchases of Goods and Services	342	366	375	394	412	434	457
Defense	256	273	288	301	316	332	349
Nondefense	87	93	87	93	96	102	108
Transfer Payments	373	390	411	441	470	502	539
Grants-in-Aid to State and Local Governments	98	102	103	108	112	117	122
Net Interest Paid	129	139	147	157	160	160	161
Subsidies less Current Surplus of Government Enterprises	21	24	27	31	31	29	28
Total Expenditures	963	1,022	1,064	1,132	1,185	1,242	1,307
Deficit	190	199	168	156	135	113	98

SOURCE: Congressional Budget Office.

APPENDIX D

HISTORICAL BUDGET DATA

The budget policies of the federal government and the role of the budget in the national economy have changed in many ways over the past 25 years. Examining historical trends in revenues, outlays, and federal debt and comparing them with projected levels provide a framework for analyzing some of these changes. Actual budget data for fiscal years 1962 through 1985, both in nominal dollars and as a percent of gross national product (GNP), are provided in Tables D-1 through D-8.

Federal revenues, outlays, deficit or surplus, and debt held by the public are shown in Tables D-1 and D-2. Revenues and outlays contain both on- and off-budget components. All federal government receipts and outlays are on-budget except those for Social Security, which appear off-budget. Social Security is excluded from the on-budget aggregates under provisions of the Balanced Budget and Emergency Deficit Control Act of 1985. The act specifies, though, that the total deficit--including Social Security--be considered in determining whether the federal government is likely to exceed the statutory deficit targets. The amount of the total deficit is also critical in establishing the federal government's borrowing requirements. Debt held by the public represents the amount borrowed by the federal government over the years, and increases each year by roughly the amount of the total deficit.

The major sources of federal revenue (including off-budget revenues) are presented in Tables D-3 and D-4. These sources are individual and corporate income taxes, social insurance taxes and contributions, excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts. Social insurance taxes and contributions include employer and employee contributions for Social Security, Medicare, Railroad Retirement, unemployment insurance, and pension contributions by federal workers. Excise taxes are levied on certain products and services, such as gasoline, alcohol, and air travel. Since 1980, excise taxes have included windfall profit taxes on domestic oil producers. Miscellaneous receipts consist mainly of deposits of earning by the Federal Reserve System.

Total on- and off-budget outlays for major spending categories are shown in Tables D-5 and D-6. These categories are national defense, entitlements and other mandatory spending, nondefense discretionary spending, net interest, and offsetting receipts.

National defense and **net interest** are identical to the budget functions with the same title (budget functions 050 and 900, respectively). The historical data for national defense have been adjusted to include imputed accruals for military retirement and are consistent with the definition of national defense used in the baseline projections.

Entitlements and other mandatory spending include programs for which spending is governed by laws making all who meet certain requirements eligible to receive payments. (Additional detail on entitlement spending is found in Tables D-7 and D-8). Many entitlement programs require that recipients have incomes below a certain level. The largest such means-tested program is Medicaid. Other means-tested entitlements include Food Stamps, Aid to Families with Dependent Children, and Supplemental Security Income.

Most entitlement programs are not means-tested, Social Security and Medicare being the largest such programs. Other retirement and disability programs include federal civilian and military retirement, Railroad Retirement, payments to disabled coal miners, and several smaller programs. Unemployment compensation, another non-means-tested program, is especially large during recessions such as the one in 1981 and 1982.

Other non-means-tested entitlements include farm price supports, general revenue sharing, revolving funds such as the Federal Deposit Insurance Corporation, and a large number of smaller trust funds.

Nondefense discretionary spending consists of all programs, other than defense and entitlements, controlled through the appropriation process. Examples include most direct federal spending for energy, the administration of justice, foreign economic and military aid, space, and natural resources. Federal grants-in-aid to state and local governments for transportation, education, housing, and community development are also considered to be discretionary.

Offsetting receipts include the federal government's contribution toward employee retirement, fees and charges such as Medicare premiums, and receipts from the use of federally controlled land and offshore territory. The bulk of these receipts from the use of federal property are rents and royalties from oil, gas, and other mineral development and proceeds from timber and power sales.

TABLE D-1. REVENUES, OUTLAYS, DEFICITS, AND DEBT HELD BY THE PUBLIC, 1962-1985

(By fiscal year, in billions of dollars)

	Revenues			Outlays			Deficit (-) or Surplus	Debt Held by the Public
	On-Budget	Off-Budget	Total	On-Budget	Off-Budget	Total		
1962	87.4	12.3	99.7	93.3	13.5	106.8	-7.1	248.4
1963	92.4	14.2	106.6	96.4	15.0	111.3	-4.8	254.5
1964	96.2	16.4	112.6	102.8	15.7	118.5	-5.9	257.6
1965	100.1	16.7	116.8	101.7	16.5	118.2	-1.4	261.6
1966	111.7	19.1	130.8	114.8	19.7	134.5	-3.7	264.7
1967	124.4	24.4	148.8	137.0	20.4	157.5	-8.6	267.5
1968	128.1	24.9	153.0	155.8	22.3	178.1	-25.2	290.6
1969	157.9	29.0	186.9	158.4	25.2	183.6	3.2	279.5
1970	159.3	33.5	192.8	168.0	27.6	195.6	-2.8	284.9
1971	151.3	35.8	187.1	177.3	32.8	210.2	-23.0	304.3
1972	167.4	39.9	207.3	193.8	36.9	230.7	-23.4	323.8
1973	184.7	46.1	230.8	200.1	45.6	245.7	-14.9	343.0
1974	209.3	53.9	263.2	217.3	52.1	269.4	-6.1	346.1
1975	216.6	62.5	279.1	271.9	60.4	332.3	-53.2	396.9
1976	231.7	66.4	298.1	302.2	69.6	371.8	-73.7	480.3
1977	278.7	76.8	355.6	328.5	80.7	409.2	-53.6	551.8
1978	314.2	85.4	399.6	369.1	89.7	458.7	-59.2	610.9
1979	365.3	98.0	463.3	403.5	100.0	503.5	-40.2	644.6
1980	403.9	113.2	517.1	476.6	114.3	590.9	-73.8	715.1
1981	469.1	130.2	599.3	543.0	135.2	678.2	-78.9	794.4
1982	474.3	143.5	617.8	594.3	151.4	745.7	-127.9	929.4
1983	453.2	147.3	600.6	661.2	147.1	808.3	-207.8	1,141.8
1984	500.4	166.1	666.5	686.0	165.8	851.8	-185.3	1,312.6
1985	547.9	186.2	734.1	769.5	176.8	946.3	-212.3	1,509.9

SOURCE: Congressional Budget Office.

TABLE D-2. REVENUES, OUTLAYS, DEFICITS, AND DEBT HELD BY THE PUBLIC, 1962-1985
(By fiscal year, as a percent of GNP)

	Revenues			Outlays			Deficit (-) or Surplus	Debt Held by the Public
	On-Budget	Off-Budget	Total	On-Budget	Off-Budget	Total		
1962	15.7	2.2	17.9	16.8	2.4	19.2	-1.3	44.6
1963	15.7	2.4	18.1	16.4	2.5	18.9	-0.8	43.2
1964	15.3	2.6	17.9	16.3	2.5	18.8	-0.9	40.9
1965	14.9	2.5	17.3	15.1	2.5	17.6	-0.2	38.8
1966	15.1	2.6	17.7	15.5	2.7	18.2	-0.5	35.7
1967	15.7	3.1	18.8	17.3	2.6	19.8	-1.1	33.7
1968	15.0	2.9	17.9	18.3	2.6	20.9	-3.0	34.1
1969	17.0	3.1	20.1	17.0	2.7	19.8	0.3	30.1
1970	16.1	3.4	19.5	17.0	2.8	19.8	-0.3	28.8
1971	14.3	3.4	17.7	16.8	3.1	19.9	-2.2	28.8
1972	14.5	3.5	18.0	16.8	3.2	20.0	-2.0	28.1
1973	14.4	3.6	18.0	15.6	3.5	19.1	-1.2	26.7
1974	14.8	3.8	18.6	15.3	3.7	19.0	-0.4	24.4
1975	14.2	4.1	18.3	17.8	4.0	21.8	-3.5	26.1
1976	13.6	3.9	17.5	17.8	4.1	21.9	-4.3	28.3
1977	14.4	4.0	18.4	17.0	4.2	21.1	-2.8	28.5
1978	14.5	3.9	18.4	17.0	4.1	21.1	-2.7	28.1
1979	14.9	4.0	18.9	16.5	4.1	20.5	-1.6	26.3
1980	15.1	4.2	19.4	17.9	4.3	22.2	-2.8	26.8
1981	15.7	4.4	20.1	18.2	4.5	22.7	-2.6	26.6
1982	15.1	4.6	19.7	18.9	4.8	23.7	-4.1	29.6
1983	13.6	4.4	18.1	19.9	4.4	24.3	-6.3	34.4
1984	13.5	4.5	18.0	18.6	4.5	23.1	-5.0	35.5
1985	13.9	4.7	18.6	19.5	4.5	24.0	-5.4	38.4

SOURCE: Congressional Budget Office.

TABLE D-3. REVENUES BY MAJOR SOURCE, 1962-1985
(By fiscal year, in billions of dollars)

Fiscal Year	Individual Income Taxes	Corporate Income Taxes	Social Insurance Taxes and Contributions	Excise Taxes	Estate and Gift Taxes	Customs Duties	Miscellaneous Receipts	Total Revenues
1962	45.6	20.5	17.0	12.5	2.0	1.1	0.8	99.7
1963	47.6	21.6	19.8	13.2	2.2	1.2	1.0	106.6
1964	48.7	23.5	22.0	13.7	2.4	1.3	1.1	112.6
1965	48.8	25.5	22.2	14.6	2.7	1.4	1.6	116.8
1966	55.4	30.1	25.5	13.1	3.1	1.8	1.9	130.8
1967	61.5	34.0	32.6	13.7	3.0	1.9	2.1	148.8
1968	68.7	28.7	33.9	14.1	3.1	2.0	2.5	153.0
1969	87.2	36.7	39.0	15.2	3.5	2.3	2.9	186.9
1970	90.4	32.8	44.4	15.7	3.6	2.4	3.4	192.8
1971	86.2	26.8	47.3	16.6	3.7	2.6	3.9	187.1
1972	94.7	32.2	52.6	15.5	5.4	3.3	3.6	207.3
1973	103.2	36.2	63.1	16.3	4.9	3.2	3.9	230.8
1974	119.0	38.6	75.1	16.8	5.0	3.3	5.4	263.2
1975	122.4	40.6	84.5	16.6	4.6	3.7	6.7	279.1
1976	131.6	41.4	90.8	17.0	5.2	4.1	8.0	298.1
1977	157.6	54.9	106.5	17.5	7.3	5.2	6.5	355.6
1978	181.0	60.0	121.0	18.4	5.3	6.6	7.4	399.6
1979	217.8	65.7	138.9	18.7	5.4	7.4	9.3	463.3
1980	244.1	64.6	157.8	24.3	6.4	7.2	12.7	517.1
1981	285.9	61.1	182.7	40.8	6.8	8.1	13.8	599.3
1982	297.7	49.2	201.5	36.3	8.0	8.9	16.2	617.8
1983	288.9	37.0	209.0	35.3	6.1	8.7	15.6	600.6
1984	298.4	56.9	239.4	37.4	6.0	11.4	17.0	666.5
1985	334.5	61.3	265.2	36.0	6.4	12.1	18.5	734.1

SOURCE: Congressional Budget Office.

TABLE D-4. REVENUES BY MAJOR SOURCE, 1962-1985
(By fiscal year, as a percent of GNP)

Fiscal Year	Individual Income Taxes	Corporate Income Taxes	Social Insurance Taxes and Contributions	Excise Taxes	Estate and Gift Taxes	Customs Duties	Miscellaneous Receipts	Total Revenues
1962	8.2	3.7	3.1	2.3	0.4	0.2	0.2	17.9
1963	8.1	3.7	3.4	2.2	0.4	0.2	0.2	18.1
1964	7.7	3.7	3.5	2.2	0.4	0.2	0.2	17.9
1965	7.2	3.8	3.3	2.2	0.4	0.2	0.2	17.3
1966	7.5	4.1	3.4	1.8	0.4	0.2	0.3	17.7
1967	7.8	4.3	4.1	1.7	0.4	0.2	0.3	18.8
1968	8.1	3.4	4.0	1.7	0.4	0.2	0.3	17.9
1969	9.4	3.9	4.2	1.6	0.4	0.2	0.3	20.1
1970	9.1	3.3	4.5	1.6	0.4	0.2	0.3	19.5
1971	8.2	2.5	4.5	1.6	0.4	0.2	0.4	17.7
1972	8.2	2.8	4.6	1.3	0.5	0.3	0.3	18.0
1973	8.0	2.8	4.9	1.3	0.4	0.2	0.3	18.0
1974	8.4	2.7	5.3	1.2	0.4	0.2	0.4	18.6
1975	8.0	2.7	5.5	1.1	0.3	0.2	0.4	18.3
1976	7.7	2.4	5.3	1.0	0.3	0.2	0.5	17.5
1977	8.1	2.8	5.5	0.9	0.4	0.3	0.3	18.4
1978	8.3	2.8	5.6	0.8	0.2	0.3	0.3	18.4
1979	8.9	2.7	5.7	0.8	0.2	0.3	0.4	18.9
1980	9.1	2.4	5.9	0.9	0.2	0.3	0.5	19.4
1981	9.6	2.0	6.1	1.4	0.2	0.3	0.5	20.1
1982	9.5	1.6	6.4	1.2	0.3	0.3	0.5	19.7
1983	8.7	1.1	6.3	1.1	0.2	0.3	0.5	18.1
1984	8.1	1.5	6.5	1.0	0.2	0.3	0.5	18.0
1985	8.5	1.6	6.7	0.9	0.2	0.3	0.5	18.6

SOURCE: Congressional Budget Office.

TABLE D-5. OUTLAYS FOR MAJOR SPENDING CATEGORIES, 1962-1985
(By fiscal year, in billions of dollars)

	National Defense	Entitlements and Other Mandatory Spending	Nondefense Discretionary Spending	Net Interest	Offsetting Receipts	Total Outlays
1962	52.3	31.3	23.3	6.9	-7.0	106.8
1963	53.4	33.7	24.6	7.7	-8.1	111.3
1964	54.8	35.0	28.4	8.2	-7.8	118.5
1965	50.6	35.3	31.8	8.6	-7.8	118.2
1966	58.1	38.0	37.6	9.4	-8.4	134.5
1967	71.4	46.0	40.1	10.3	-10.2	157.5
1968	81.9	52.7	43.2	11.1	-10.8	178.1
1969	82.5	59.2	40.3	12.7	-11.1	183.6
1970	81.7	67.1	44.2	14.4	-11.7	195.6
1971	78.9	81.7	49.0	14.8	-14.2	210.2
1972	79.2	95.4	54.9	15.5	-14.2	230.7
1973	76.7	111.5	58.3	17.3	-18.1	245.7
1974	79.3	125.2	64.7	21.4	-21.3	269.4
1975	86.5	157.2	83.9	23.2	-18.5	332.3
1976	89.6	183.8	91.4	26.7	-19.8	371.8
1977	97.2	199.2	104.5	29.9	-21.6	409.2
1978	104.5	219.5	122.3	35.4	-23.0	458.7
1979	116.3	237.9	132.7	42.6	-26.1	503.5
1980	134.0	280.6	154.2	52.5	-30.4	590.9
1981	157.5	323.5	167.7	68.7	-39.3	678.2
1982	185.3	359.8	152.8	85.0	-37.1	745.7
1983	209.9	401.2	153.6	89.8	-46.2	808.3
1984	227.4	397.0	161.5	111.1	-45.3	851.8
1985	252.7	440.2	172.1	129.4	-48.1	946.3

SOURCE: Congressional Budget Office.

TABLE D-6. OUTLAYS FOR MAJOR SPENDING CATEGORIES, 1962-1985
(By fiscal year, as a percent of GNP)

	National Defense	Entitlements and Other Mandatory Spending	Nondefense Discretionary Spending	Net Interest	Offsetting Receipts	Total Outlays
1962	9.4	5.6	4.2	1.2	-1.3	19.2
1963	9.1	5.7	4.2	1.3	-1.4	18.9
1964	8.7	5.6	4.5	1.3	-1.2	18.8
1965	7.5	5.2	4.7	1.3	-1.2	17.6
1966	7.8	5.1	5.1	1.3	-1.1	18.2
1967	9.0	5.8	5.1	1.3	-1.3	19.8
1968	9.6	6.2	5.1	1.3	-1.3	20.9
1969	8.9	6.4	4.3	1.4	-1.2	19.8
1970	8.2	6.8	4.5	1.5	-1.2	19.8
1971	7.5	7.7	4.6	1.4	-1.3	19.9
1972	6.9	8.3	4.8	1.3	-1.2	20.0
1973	6.0	8.7	4.5	1.3	-1.4	19.1
1974	5.6	8.8	4.6	1.5	-1.5	19.0
1975	5.7	10.3	5.5	1.5	-1.2	21.8
1976	5.3	10.8	5.4	1.6	-1.2	21.9
1977	5.0	10.3	5.4	1.5	-1.1	21.1
1978	4.8	10.1	5.6	1.6	-1.1	21.1
1979	4.7	9.7	5.4	1.7	-1.1	20.5
1980	5.0	10.5	5.8	2.0	-1.1	22.2
1981	5.3	10.8	5.6	2.3	-1.3	22.7
1982	5.9	11.5	4.9	2.7	-1.2	23.7
1983	6.3	12.1	4.6	2.7	-1.4	24.3
1984	6.2	10.7	4.4	3.0	-1.2	23.1
1985	6.4	11.2	4.4	3.3	-1.2	24.0

SOURCE: Congressional Budget Office.

TABLE D-7. OUTLAYS FOR ENTITLEMENTS AND OTHER MANDATORY SPENDING, 1962-1985

(By fiscal year, in billions of dollars)

Fiscal Year	Medicaid	Other Means-Tested Programs	Social Security	Medicare	Other Retirement and Disability	Unemployment Compensation	Other Non-Means-Tested Programs	Total Entitlements and Other Mandatory Spending
1962	0.1	4.2	14.1	---	2.6	3.8	6.4	31.3
1963	0.2	4.6	15.5	---	2.9	3.8	6.7	33.7
1964	0.2	4.8	16.3	---	3.3	3.6	6.8	35.0
1965	0.3	5.0	17.1	---	3.6	3.0	6.4	35.3
1966	0.8	5.0	20.2	0.0	4.1	2.4	5.5	38.0
1967	1.2	5.0	21.3	3.2	4.8	2.5	7.9	46.0
1968	1.8	5.7	23.0	5.1	5.7	2.4	9.1	52.7
1969	2.3	6.4	26.5	6.3	5.2	2.6	10.0	59.2
1970	2.7	7.4	29.4	6.8	6.6	3.4	10.8	67.1
1971	3.4	10.0	34.8	7.5	8.2	6.2	11.6	81.7
1972	4.6	11.7	39.0	8.4	9.5	7.1	15.0	95.4
1973	4.6	11.5	47.9	9.0	11.5	5.4	21.7	111.5
1974	5.8	13.9	54.5	10.8	13.6	6.1	20.5	125.2
1975	6.8	18.9	63.1	14.1	16.4	13.5	24.4	157.2
1976	8.6	22.2	72.2	17.0	18.6	19.5	25.8	183.8
1977	9.9	24.0	83.2	20.7	21.2	15.3	25.0	199.2
1978	10.7	25.3	91.8	25.0	23.2	11.8	31.7	219.5
1979	12.4	27.1	101.9	28.9	27.3	10.7	29.5	237.9
1980	14.0	32.6	117.1	33.9	31.5	18.0	33.4	280.6
1981	16.8	37.8	138.0	41.3	36.6	19.7	33.4	323.5
1982	17.4	38.1	154.1	49.2	39.8	23.7	37.6	359.8
1983	19.0	40.6	168.5	55.5	42.0	31.5	44.2	401.1
1984	20.1	41.6	176.1	61.0	43.3	18.4	36.5	397.0
1985	22.7	43.7	186.5	69.8	44.0	17.5	56.0	440.2

SOURCE: Congressional Budget Office.

TABLE D-8. OUTLAYS FOR ENTITLEMENTS AND OTHER MANDATORY SPENDING, 1962-1985

(By fiscal year, as a percent of GNP)

Fiscal Year	Medicaid	Other Means-Tested Programs	Social Security	Medicare	Other Retirement and Disability	Unemployment Compensation	Other Non-Means-Tested Programs	Total Entitlements and Other Mandatory Spending
1962	0.0	0.8	2.5	---	0.5	0.7	1.1	5.6
1963	0.0	0.8	2.6	---	0.5	0.6	1.1	5.7
1964	0.0	0.8	2.6	---	0.5	0.6	1.1	5.6
1965	0.0	0.7	2.5	---	0.5	0.4	1.0	5.2
1966	0.1	0.7	2.7	0.0	0.6	0.3	0.7	5.1
1967	0.1	0.6	2.7	0.4	0.6	0.3	1.0	5.8
1968	0.2	0.7	2.7	0.6	0.7	0.3	1.1	6.2
1969	0.2	0.7	2.9	0.7	0.6	0.3	1.1	6.4
1970	0.3	0.7	3.0	0.7	0.7	0.3	1.1	6.8
1971	0.3	0.9	3.3	0.7	0.8	0.6	1.1	7.7
1972	0.4	1.0	3.4	0.7	0.8	0.6	1.3	8.3
1973	0.4	0.9	3.7	0.7	0.9	0.4	1.7	8.7
1974	0.4	1.0	3.8	0.8	1.0	0.4	1.4	8.8
1975	0.4	1.2	4.1	0.9	1.1	0.9	1.6	10.3
1976	0.5	1.3	4.2	1.0	1.1	1.1	1.5	10.8
1977	0.5	1.2	4.3	1.1	1.1	0.8	1.3	10.3
1978	0.5	1.2	4.2	1.1	1.1	0.5	1.5	10.1
1979	0.5	1.1	4.2	1.2	1.1	0.4	1.2	9.7
1980	0.5	1.2	4.4	1.3	1.2	0.7	1.3	10.5
1981	0.6	1.3	4.6	1.4	1.2	0.7	1.1	10.8
1982	0.6	1.2	4.9	1.6	1.3	0.8	1.2	11.5
1983	0.6	1.2	5.1	1.7	1.3	0.9	1.3	12.1
1984	0.5	1.1	4.8	1.6	1.2	0.5	1.0	10.7
1985	0.6	1.1	4.7	1.8	1.1	0.4	1.4	11.2

SOURCE: Congressional Budget Office.

WEDNESDAY, FEBRUARY 19, 1986.

BRIEFING ON GRAMM-RUDMAN-HOLLINGS ACT

WITNESSES

HON. ROBERT W. HELM, ASSISTANT SECRETARY OF DEFENSE

MAJ. GEN. JAMES F. McCALL, USA, DIRECTOR OF ARMY BUDGET

REAR ADM. WILLIAM D. SMITH, USN, DIRECTOR, OFFICE OF BUDGET AND REPORTS

MAJ. GEN. LEO W. SMITH II, USAF, DIRECTOR OF AIR FORCE BUDGET

INTRODUCTION

Mr. DICKS. This afternoon the Subcommittee will continue with briefing on the Gramm-Rudman-Hollings Act, particularly as it affects the Defense budget.

This afternoon we will be hearing from the Department of Defense. The principal witness will be the Honorable Robert W. Helm, Assistant Secretary of Defense (Comptroller). He will be supported by: Major General James F. McCall, USA, Director of Army Budget, Rear Admiral William D. Smith, USN, Director, Office of Budget and Reports, and Major General Leo W. Smith, II, USAF, Director of Air Force Budget.

After Secretary Helm's statement, the budget officers of the three departments will join him at the witness table to answer questions. Mr. Helm, please proceed with your statement.

SUMMARY STATEMENT OF MR. HELM

Mr. HELM. Thank you very much, Congressman Dicks.

The subcommittee has requested that DOD provide a summary of how the requirements of the Gramm-Rudman law were carried out for fiscal year 1986 by the Department of Defense. I do have a prepared statement, but I would like to take a few minutes just to summarize it for you, and maybe answer a few of the questions in advance as I go through.

Like every other agency in the government, the DOD watched the Gramm-Rudman provisions develop, and struggled, as did others, to comprehend all of its requirements.

We implemented the fiscal year 1986 Gramm-Rudman requirements between December 25th and January 11th, basically in accordance with guidance we got from the Administration and the Office of Management and Budget.

Mr. DICKS. Are you underlining the word "basically?"

Mr. HELM. At the moment, I am not underlining anything, Mr. Dicks. Throughout, we sought to apply the most straight-forward and least complicated interpretation of the language in the law, and followed Congressional intent to the best of our understanding and the Administration's. At times this was not the easiest thing to do, given the nature of some of the language in the law.

The procedure that we followed, under the terms of Gramm-Rudman as it applies to National Defense Function 050, was to provide $5.85 billion in outlay savings in fiscal year 1986. This was 50 percent of the $11.7 billion total government requirement.

Of this $5.85 billion that was to come from all of the National Defense Functions, including automatic spending increases, the Department of Defense's share was $5.1 billion. The remainder comes from the nuclear weapons activities of the Department of Energy and certain other activities, as well as the automatic spending increases.

The base for making these reductions was the outlays calculated from new budget authority received in fiscal year 1986 and unobligated balances from prior years, using the first-year outlay rates as the ratio between budget authority and outlays.

From the base we did leave out $2.2 billion that reflected the so-called appropriated but not authorized amounts that were at issue in the Congress, which were not legally available to the Department. Therefore they were not part of the base.

The Department also left out $6.3 billion, which was the amount which the Continuing Resolution identified as transfer authority from previous years.

It was a subject of some debate, I understand, during the markup, and the language in the——

Mr. DICKS. There was considerable debate on the Floor and in the back rooms.

Mr. HELM. Yes, sir. The language of the CRA said that those amounts should not be used to offset the effects of sequestering, and the Administration's interpretation of that was to simply leave it aside until its status was clarified.

PROGRAM, PROJECT, AND ACTIVITY

As it developed, $5.1 billion represented approximately a 4.9 percent standard percentage reduction off of every program, project and activity—so-called PPA—in the defense budget. We had about 4,000 PPA's in total.

Mr. DICKS. Four thousand?

Mr. HELM. Four thousand, approximately.

Mr. DICKS. Within the Department of Defense?

Mr. HELM. Within the Department of Defense.

Mr. DICKS. What was the percentage?

Mr. HELM. 4.9 percent was the standard percentage. In defining PPA's, we followed the definition that was included in the Continuing Resolution, which was placed there by the Appropriations Committees——

Mr. DICKS. But we were directed under Gramm-Rudman to give you guidance.

Mr. HELM. Exactly, and we were glad to have that guidance. It was a great help. We would have been——

Mr. DICKS. Does that go into effect in 1987 as well?

Mr. HELM. Yes, it does, unless it is changed by——

Mr. DICKS. In other words, the CR language in the 1986 Continuing Resolution unless changed, becomes the guidance not only for 1986, but 1987 and into the future?

Mr. HELM. That is my understanding, and it would be our intention to abide by the last relevant definition from the Appropriations Committees. Essentially, the budget activity level——

Mr. DICKS. Obviously, if Congress enacted a new bill there could be new instructions given in a new appropriations bill.

Mr. HELM. Certainly, without a doubt. But for the purposes of the 1986 sequester, it was the budget activity level for O&M and military personnel, and the P-1, R-1, and C-1 line items for the procurement, R&D and military construction areas.

So essentially every line item in the P-1 and the R-1 was a PPA in and of itself. Each weapons system, each military construction project, each building at a military facility that was proposed for construction became a PPA.

In administering——

Mr. DICKS. Let me ask you just a question that has been bothering me. Military construction projects are one-year projects. You do one and then that is it, and then you do the next one the next year. But what if we do not come up with an alternative military construction budget?

Then you are stuck with the 1986 program, is that not correct?

Mr. HELM. That would be my understanding.

Mr. DICKS. So how would you then get new programs into the mix?

Mr. HELM. Well, we would have a—in the new budget that we submitted we have a list. I would expect that in a CRA, some projects would be approved specifically in a CRA.

Otherwise, you are right; it would be difficult to have anything approved.

Mr. DICKS. You could get into a situation where the President vetoes the Continuing Resolution, but we would have to eventually get a CR of some sort.

You would have to have one to keep the government operational.

Mr. HELM. You have to get money one way or the other.

Mr. DICKS. So, that would be the vehicle for the new projects to appear?

Mr. HELM. Exactly. There would have to be some appropriation vehicle.

Mr. DICKS. Right. Because if not, the government stops there and we get into a crisis situation.

Mr. HELM. Exactly.

FLEXIBILITY IN FY 86 SEQUESTRATION

Mr. HELM. We had some flexibilities to work with for fiscal year 1986.

Mr. DICKS. I understand that you were violently opposed to that and want us to line item and micro manage the whole thing for you this next time.

Mr. HELM. No sir, not at all.

Mr. DICKS. Is that right? Oh, I am sorry.

Mr. HELM. Military personnel accounts could be exempted in part, or in total, but the rest of the programs, projects and activities in the budget had to pick up the additional burden.

Mr. DICKS. The rest of the cut.

Mr. HELM. In other words, we had the option of decreasing the base, but others would have to pick up the rest of the cut. Additionally, specific programs, projects and activities could be exempted, but other PPA's in the same appropriation account had to make up the difference, up to a limit of twice the standard percentage.

Mr. DICKS. That was 9.8 and 4.9 percent.

Mr. HELM. Exactly.

RESTRICTIONS ON FY 86 SEQUESTRATION

Mr. HELM. There were also a few restrictions. There could be no termination of programs as a result of sequestration. We did have the flexibility of terminating specific contracts within a PPA.

In other words, certain weapons programs are made up of many different contracts and you had the option of terminating certain contracts as long as it did not have the effect of terminating the whole program. So you might choose not to sign a contract this year and wait until next year to take up that——

Mr. DICKS. But as I understand it, in 1987, you do have the right to terminate contracts.

Mr. HELM. Terminate contracts, but not terminate programs.

Mr. DICKS. Only Congress can do that now?

Mr. HELM. Well, the Administration has the option of simply not requesting that a program be funded in its new budget.

Mr. DICKS. Right.

Mr. HELM. But once it is appropriated, the Congress, in one sense or another, has to approve terminating it. In addition, there could be no base closures or realignments as a result of sequestering. Bases in themselves are not PPA's, so that that restriction was somewhat anomalous.

You would have to deal—I do not know how you would actually get at a base in the context of sequestering per se. It would be very difficult.

And finally, programs that had been increased over the President's request by 10 percent, or more, could not have more than the standard 4.9 percent taken away from them in the sequestering process.

I understand the intent was to protect Congressional priorities from being affected in some undue way by a sequestering methodology.

Mr. DICKS. We would never anticipate that the Administration would attempt to do that, though.

Mr. HELM. I believe I read some accounts that some people were suspicious.

Mr. DICKS. I see.

MILITARY PERSONNEL ACCOUNTS

Mr. HELM. The President essentially did decide to exercise his flexibility to exempt the military personnel accounts from sequestering.

This basically reflects the progress that we have made over the past four years in turning around the military personnel situation in terms of quality and retention, and a desire not to do anything to adversely offset that in terms of morale. Nonetheless, three specific areas were identified which we felt could take some adjustment.

Specifically, there was a small adjustment in the permanent change of station (PCS) funding. We adopted some early release procedures, for people who were planning on separating, speeding up their release from service by about two months or whatever the time might be.

And the growth of some special training and schooling for reserve personnel was slowed down somewhat. I believe it had been appropriated at about a 13 percent increase. We felt that could be held down to 10 percent without any adverse impact.

Basically, these three areas were either responsive to Congressional interest to hold down some things such as PCS, or we felt they had no adverse impact.

If military personnel had been exposed to the full impact of sequestering, we estimate about 280,000 military personnel would have had to have been released over the seven month period that remained in fiscal year 1986.

Mr. DICKS. 280,000——

Mr. HELM. Military personnel.

Mr. DICKS. Active duty military personnel?

Mr. HELM. Active duty military personnel.

Mr. DICKS. How about civilian personnel?

Mr. HELM. Well, as for civilian personnel, there was no exemption under Gramm-Rudman to deal with civilian personnel, so they will be affected by the normal sequestering effect on the accounts in which they are funded, primarily in the O&M and R&D areas.

Mr. DICKS. So civilian personnel will be reduced, did get reduced?

Mr. HELM. The PPA's in which they are funded got nicked, and it will be an option of——

Mr. DICKS. So it is just military personnel that was exempted?

Mr. HELM. Just military personnel exactly.

Mr. DICKS. How would that have broken out, by services? Do you know?

Mr. HELM. I do not have a breakdown by service.

Mr. DICKS. Was there one made?

Mr. HELM. I guess maybe the Service Budget Officers can present that.

Mr. DICKS. They can present that when they get up here.

All right. Have you done an estimate of what would happen in fiscal year 1987?

Mr. HELM. I do not know what the deficit is going to be, right now, in fiscal year 1987.

Mr. DICKS. Well, based on CBO's projection, it was about a 6.2 reduction that would be required, as they testified this morning.

So if FY 86 this was 4.9 percent, then I suspect you could say that it would be basically a quarter more, than that.

Mr. HELM. You could be well over a half a million people and probably up to, approaching a million military personnel under a scenario like this.

I have a hard time contemplating that, I must confess, but——

Mr. DICKS. It looks to me like you would be up to at least four hundred—say, roughly, 420,000 military personnel.

For the record, please advise us how you got that 280,000 number.

Mr. HELM. We will do that. We have that methodology.

[The information follows:]

IMPACT ON MILITARY PERSONNEL IN FY 1986 IF NOT EXEMPTED FROM GRAMM-RUDMAN-HOLLINGS MARCH 1, 1986 IMPLEMENTATION (7 MONTHS)

Results:

Based on current calculations a full Gramm-Rudman share for Military Personnel (on a strictly proportional basis) would amount to $2.1 billion in outlays and $2.2 billion in budget authority in FY 1986.

Of this, $0.8 billion could have been reductions in areas such as travel, bonuses, training, etc. which would not immediately affect end-strength.

Remainder of decrease ($1.4 billion) would have required force reductions of 280,000 personnel, or more, depending upon how and when it was implemented.

Assumed sufficient lead-time to 1 March to plan personnel reductions in orderly manner.

Reductions would be combination of reduced accessions, hold reenlistments to critical skills only and involuntary separations.

Calculation:

Cut $1.4 billion over 7 months (March 1–September 30, 1986).

Average annual pay $27,011 (officer and enlisted composite annual rate).

Assume phased reduction beginning 1 March 1986.

Phased over 7 month period—results in average of 3.5 months savings.

Average payroll savings per person $7,887.

Less average separation cost of $2,887 results in net average savings of $5,000.

$1.4 billion dividend by $5,000 equals 280,000 end strength.

Mr. DICKS. Please proceed.

SDI PROGRAM

Mr. HELM. A second decision the Secretary and the President made was to exempt the SDI Program, the President's highest priority, from the impact of sequestering. Basically, the assessment was that the President's fiscal year 1986 SDI request had been reduced about a billion dollars in the legislative process, and that it should be protected from further adjustments. That decision was made and SDI was protected.

FIRM-PRICED AND MULTIYEAR CONTRACTS

Finally, the Services and the OSD staff were asked to identify additional specific PPA's as exemption candidates. They were requested first of all to consider any undue impact on Presidential programs; and secondly to protect program execution as much as possible, specifically focusing on efficient contract arrangements that the Department already had so as not to affect those in such a way that those efficiencies would disappear.

Mr. DICKS. And you mentioned in your statement, "firm fixed price contracts and multi-year contracts."

Mr. HELM. Firm, and multi-year. Specifically those two types.

Mr. DICKS. Now let me ask you this: Let us talk about 1987 just for a second. Do you have that latitude in 1987?

Mr. HELM. We do not have that latitude in 1987.

Mr. **Dicks**. So that there is a possibility, unless Congress gives you latitude, that you might have to breach firm fixed price contracts and multi-year contracts, is that correct?

Mr. **Helm**. Yes.

Mr. **Dicks**. Could you lay out what the consequences of that might be.

Mr. **Helm**. We can try to provide some backup, but if these contracts have to be broken——

Mr. **Dicks**. There would be substantial penalities, then.

Mr. **Helm**. There will be substantial penalties. We will not realize the cost savings that they were based on when Congress approved them.

In many cases we will still need the capability and we will have to go back and renegotiate with the supplier——at an increased cost, quite probably.

Mr. **Dicks**. I think it would be helpful to have a few examples of what might happen.

Mr. **Helm**. We will certainly do that. We will provide some illustrative examples of what could occur.

[The information follows:]

Fixed price contracts are desirable in many circumstances because they place the risk of cost increase on the contractor. Theoretically, they force the best management and cost control because the degree of contractor's profit or loss is directly determined by how much over or under contract price the contractor is able to deliver the item. Termination of an ongoing fixed price contract takes the risk away from the contractor and places it back on the government. In effect, the contract becomes a high profit margin cost contract. The contractor has the opportunity at termination to recover the cost of overruns because he can now claim that he could have recovered his overrun during the terminated portion of the contract or that the termination created such delay and disruption that it caused the overrun. On the other hand, if the contractor is in an underrun situation, the contractor can claim that the underrun resulted from his intensive cost control measures and he would be entitled to the increased profits from the underrun under the fixed price contract and he should still be entitled to it under the terminated contract.

Terminations are particularly harmful in competitive situations. The winning contractor may well have cut profit margins and planned efficiency improvements in order to win the competition. A termination allows him to reevaluate these decisions in a noncompetitive environment. This may not always be readily identifiable since it also applies to subcontracts, which may have been awarded competitively even though the prime contract was awarded on a sole source basis. In short, much of the efficiency and savings gained through the Department's extensive efforts to increase competition will be lost if we are forced to terminate contracts.

All of our multiyear contracts have been fixed price. Therefore, they would suffer from the same problems only worse than described above. The problems are worse because a multiyear contract covers two to five years and the contractor is again out of the competitive environment with the opportunity to reevaluate his costs and profits. Further, if economic order quantity procurements were made under the multiyear contract to be applied to future production, many of these items would no longer be required if the program is terminated. Unless these items could be used as spares or in future production, the EOQ funds will have been wasted.

The F-16 procurement history provides a very good example of what could happen. The General Dynamics F-16 was selected competitively. General Dynamics vendors were, in turn, selected competitively. The development/production competition resulted in favorable option prices for the first few production years. If the contract were terminated during that time, General Dynamics could reevaluate costs and ensure that he covered all costs and obtained a desired profit. Similarly, General Dynamics vendors would try to achieve their best profit in a suddenly noncompetitive environment. For the FY 1983 procurement, because the vendor options were exhausted, General Dynamics had to obtain quotes from the vendors. These quotes were dramatically higher because the vendors were now in a noncompetitive situation. The Air Force then nominated the F-16 for multiyear procurement (MYP). The larger four year buy allowed General Dynamics to recompete or to use the threat, only credible under MYP, of competition to obtain more reasonable vendor prices. If the multiyear contract were terminated the F-16 prices would be lost along with the multiyear savings of $256 million, and the vendors would return to their previous noncompetitive quotes.

OFFSETS TO EXEMPTIONS

Mr. HELM. Finally, Mr. Dicks, we asked the Services also to think about the offsets that they would provide for these exemptions, and this is a very important consideration.

The Department, as a whole, needed to think carefully about the implications of entering into a wholesale reshuffling of the defense 1986 budget at the PPA level, with dozens and dozens of things being exempted, and others having to incur between 4.9 and 9.8 percent reductions.

It could have developed into a very disruptive reshuffling of the whole program. That was a very real consideration for the Department, in terms of thinking about to what extent it was practical to use this exemption flexibility, especially in the context of something which we hoped is a one-year phenomenon and would not have to be dealt with next year.

The Service candidate systems were received. They were reviewed by the OSD staff, and finally, after a good deal of debate and consideration in DOD, the decision was made to exempt only those contract efficiencies which we desired to protect—the multiyears and the firm fixed contracts.

4.9 PERCENT ACROSS-THE-BOARD REDUCTION

Otherwise we chose to spread the proportional 4.9 percent reduction over as broad and as much of a base as we could. The result was that, to get that $5.1 billion in outlays, we had to cut about $13.3 billion in budget authority that had been appropriated in fiscal year 1986 or in a prior year.

About $11 billion of that 13.3 came from new budget authority appropriated in fiscal year 1986. The balance, $2.3 billion, came from prior year balances——

Mr. DICKS. Now your statement says $2.6 billion. Is that a correction?

Mr. HELM. Well, I have one more part to tell about how GAO impacted the product, they added a little——

Mr. DICKS. They nicked you a little more.

Mr. HELM. They added a little bit more.

Mr. DICKS. Do you have the right in 1987 to use unobligated balances as well?

Mr. HELM. Yes, sir.

Mr. DICKS. So that option continues?

Mr. HELM. That is not an option but is required by the Act. As I said, we developed this plan after December 25th, when we got our first guidance from OMB, and on January 10th we had to supply our detailed plan to OMB. This was a government-wide process and they had to incorporate our piece of the sequester into the total report that the Director of OMB was putting together.

WORKING RELATIONSHIP

Throughout our preparations we worked very closely with OMB, the Congressional Budget Office and GAO, and had a number of working conversations with them.

I think the relationship was basically very harmonious. Everybody would have liked a little bit more time to try to deal with the complexities of the law.

OMB and GAO would have liked to have had our data sooner than we were able to provide it, but nonetheless we did get it in and OMB and CBO were able to meet the reporting date to submit their reports to GAO.

$6.3 BILLION TRANSFER

GAO reviewed our report for defense. They differed from the conclusion that we and OMB and CBO had reached, which was that the $6.3 billion in transfer money should be exempted from the base.

They concluded that, since it had been appropriated in prior years, it was legally available. They added it to our sequester base. They added about another $300 million to our total reduction, raising it to the $13.6 billion versus the $13.3 billion. Therefore we were reduced by $11 billion in FY 1986 budget authority and $2.6 billion in prior year balances—that is the point that you mentioned in my statement. The increase from $2.3 to $2.6 billion was a result of that GAO finding.

GUIDANCE TO THE SERVICES

On March 1st, the Sequestration Order will be carried out. Until then, the funds that are at issue have been withdrawn from the Services by my office. The Services have been given additional guidance on how to deal with sequestration, especially with certain programs that have contractual efficiencies at issue, but are below the PPA level.

The essence of the guidance is, at all costs try and protect program execution, and try to get the programs to deliver in the same timeframe that we were originally talking about.

Now just to conclude very quickly, there is the question of impact on defense which is on everyone's mind. There is lots of interest in it.

The budget officers from the Services will be up here and can comment on that as well. I would like to point out, though, that really, sequestration is not yet implemented. The cuts will have to go down to the program officer level and the base commander level. They will have the responsibility, essentially, of deciding how to deal with this 5 percent cut.

Basically, we have a responsibility to execute the program that was appropriated by Congress. We simply have 5 percent less to do it with than we thought we would a few months ago after the CRA. So the program is essentially underfunded by 5 percent right now. We will try to protect program execution. Obviously, this sort of a reduction on top of the $24 billion reduction that we experienced during the fiscal year 1986 legislative process is going to add extra uncertainty and some confusion to program managers, and to the execution of the whole program. We did out best during——

Mr. DICKS. I read in the paper, though, that some high officials within the Defense Department said, "We always pad our budget anyway, in order to anticipate these things."

Mr. HELM. I do not think that was any official who had anything to do with putting together the defense budget, Mr. Dicks.

Mr. DICKS. I thought it was very good that the budget people—and I assume yourself—responded very strongly, that that was a very inappropriate comment.

Mr. HELM. The whole objective of my office is to make sure that those sorts of things do not happen. If we find any instances of overfunding we eliminate them. We have more than enough requirements that go unfunded in each budget year to put up with that sort of behavior.

IMPACT ON DEFENSE PROGRAMS

As we went through the process of trying to put together the sequestering plan, we did our best to try to anticipate the adverse impacts in advance, and judge the degree to which programs required protection. It is not impossible, in an exercise of this magnitude, that a few were missed. We had to work very quickly. It may be that down the road, OSD will find out from the Services, and we will be in a position of coming back to Congress to tell you about some things which unintentionally have been busted by Gramm-Rudman. Reprogrammings may be required, and reprogrammings are a normal part of every budget year. I would anticipate they would occur in any event.

Gramm-Rudman implications may increase the level of issues that we bring back to the Congress for a reprioritization of resources to try to deal with the consequences of Gramm-Rudman.

IMPACT OF FUTURE SEQUESTRATIONS

Finally, I would just like to touch on a question that is often asked about flexibilities for defense in the future, if we have to deal with sequestering in fiscal year 1987 and in the future.

If we are dealing with a sequester of roughly the same magnitude that we had to deal with in fiscal year 1986, by and large I think the flexibilities that existed this year were helpful.

If we are dealing with a cut of the magnitude that is being talked about by CBO, for example—if we are talking about a $50 or $60 billion reduction in budget authority from the appropriated level—I quite frankly cannot imagine what sorts of flexibilities would be all that useful. Certainly the personnel flexibility was very useful this year. If we had to deal with a very large cut in a future year, it would almost be impractical to take the same course of action, exempt that much of your base, and have to make up such a large difference in your procurement O&M or your R&D programs. You just would not have that flexibility.

Mr. DICKS. So, we are talking about, say, a $50 billion cut in budget authority.

Mr. HELM. I do not know how you would have the option——

Mr. DICKS. The CBO this morning estimated a cut of $49 billion in BA off the President's budget, but not off the 1986 appropriation. They are saying $271 billion, would be the FY 1987 BA number at this point, assuming the deficit numbers are at $166 billion, and that is what they are predicting.

You would have the $22 billion outlay reduction, half of which would come from defense. From that you end up with a $271 billion BA number for FY 1987. That is fifty billion cut from your budget request but not fifty billion from $286, the FY 1986 number, which would have been I think a disaster. You may think $271 billion is disastrous but $236 billion would have looked a lot worse.

Mr. HELM. It all sounds pretty disastrous to me, Mr. Dicks.

Mr. DICKS. Yes. And I am talking about the defense function, not the defense bill.

Mr. HELM. Yes. But my only point at the moment——

Mr. DICKS. You would not be able to exempt personnel in that kind of a sequestering?

Mr. HELM. To do so would push such a huge percentage cut onto the other PPA's that it would be very difficult to hold together program execution, I would think.

You would be talking about a dramatically different kind of defense budget than was requested, or, I would imagine, than the Congress appropriated.

Mr. DICKS. So I assume you would like to see us develop an alternative to the Gramm-Rudman-Hollings program that was sponsored by the Senate and endorsed by the President?

Mr. HELM. I think everyone's hope was that the result would be that Gramm-Rudman would never have to be triggered as a result of appropriations actions.

LEVEL OF ENFORCEMENT

A second thing I would like to touch on, though, is the level of enforcement. Right now, the PPA level, as I mentioned, goes down to a great deal of detail, the P-1 and the R-1 level of each individual program.

From the standpoint of flexibility for the Department in executing these sorts of reductions, what is very attractive to me, quite frankly, is to talk about enforcing things at the appropriation account level——

Mr. DICKS. And so you would like it at, for example shipbuilding, Navy, rather than so much out of each program?

Mr. HELM. Yes, much more useful flexibility. I understand there was some concern when Gramm-Rudman was being written about protecting the priorities of Congress in the process of implementing these sorts of cuts.

I am certain some sort of reporting mechanism could be developed to ensure Congress that its priorities were being protected, or at least give the Department some capability to make a case back to Congress, that in light of a Gramm-Rudman adjustment, everything had to be looked at again.

Specifically in terms of the restriction on reducing a Congressional add more than its standard percentage, all Congressional adds occur before Gramm-Rudman goes into effect. It may very well be that Congress itself would agree that after Gramm-Rudman kicked in, the adds that it had made had a different priority after Gramm-Rudman than before.

I think it would be very useful if the Department had the opportunity to come back to Congress and at least try to make a case about reprioritizing, but this is just a suggestion.

ALTERNATIVES

Mr. Dicks. I think that is a good suggestion. The Chairman or others on the committee have argued for this. Mr. McDade may have a different view, but it seems to me that the Administration should present some alternatives.

We have had a hard time in the past getting alternatives from the Administration when it comes to the budget, but maybe in this area there would be some willingness to cooperate.

Mr. McDade. Will you yield.

Mr. Dicks. Yes, I yield.

Mr. McDade. Is that in the context of a one month appeal? How long is that appeal time in fiscal year 1987 if you got the sequester?

Is it one month, or how much turnaround time is there?

Mr. Helm. Well, right now, there is a 30 day period that the Congress has to look at the plan.

Mr. McDade. Yes, to March 1, but I am looking at fiscal year 1987. Is it the same one month turnaround time?

Mr. Helm. I think it is the same, one month, if I am not mistaken.

Mr. Dicks. The snapshot is on August 15th, and then you have to develop the plan; but that is assuming that we do not have an alternative.

Mr. McDade. Well, what we were talking about, I thought, Norm, was the Administration going through the sequester but us having an opportunity then to change it, and I wanted to focus on the amount of time we would have.

Mr. Dicks. It is about a month.

Mr. Helm. About a month; yes sir.

Mr. McDade. Is it still 30 days?

Mr. Helm. Still 30 days, Mr. McDade.

Mr. McDade. Not much time.

Mr. Helm. Not for four thousand PPA's. Mr. Dicks, that really concludes what I wanted to say.

CONTRACT TERMINATIONS

Mr. Dicks. What about the net loss caveat regarding contract terminations? Explain that, will you.

Mr. Helm. Well, I think there is some value in possibly taking a longer term outlook on steps that might be taken to try to hold down the deficit if we face that situation.

Right now, Gramm-Rudman obviously takes a one year perspective. The restriction is that you cannot cancel a contract which might have savings over several years, savings if the termination costs or whatever exceed the savings in the first year. There may be some value in considering the collateral benefit of not being tied strictly to that provision concerning the net loss in the same year. But I would rank that as a lower concern.

[The statement follows:]

STATEMENT OF THE ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER) ROBERT W. HELM

INTRODUCTION

I am pleased to appear here today to present the methodology used by the Department of Defense to implement this legislation. We spent a great deal of time studing the legislation to ensure (1) compliance and (2) a plan that would cause the last disruption to program execution.

Because the Gramm-Rudman-Hollings reductions were in addition to those already made in the normal congressional process, it was essential that implementation first cope with the intent of the Congress in the Continuing Appropriations for FY 1986, and then proceed with application of the Gramm-Rudman-Hollings reductions. Issues such as programs appropriated but not authorized, as well as undistributed congressional reductions were complications that had to be dealt with in the short time available for compliance.

In total, the sizeable cuts made now bring the FY 1986 defense program well below the FY 1985 level. This was recognized as having the potential to lessen our ability to strengthen and rebuild our defense forces. It was in the context that we endeavored to understand the overall provisions of the law, and particularly as it would impact our ability to execute defense programs.

Next, we had to determine the basic groundrules and criteria that would assist us to establish the methodology for implementation. We wanted to ensure that the resultant impact on national security would be minimized to the extent possible.

FLEXIBILITIES

The Balanced Budget and Deficit Control Act—while imposing one half of the required reduction on defense—provided some flexibilities for defense. Although the flexibility is limited to FY 1986, it enabled us to make some selected decisions to protect vital defense programs and force structure. An important flexibility was that the Military Personnel accounts could be exempt from reduction. Also, specific programs, projects, and activities (PPs) of defense accounts could be exempt, and contract terminations could be made with certain provisos.

RESTRICTIONS

At the same time, this legislation also included some restrictions that could neutralize the positive aspects of the flexibilities. For example, even though contract terminations could be made, we were not permitted to terminate a program; nor could base closures or realignments be started as a direct result of Gramm-Rudman reductions. Also, while we could exempt specific PPAs, the legislation still required the percentage cut to be made from other PPAs within the same appropriation account, to compensate for the exemption. Another restriction that we feel is unreasonable relates to congressional adds, or PPAs that are 10 percent (or more) above the amount requested by the President. These PPAs could not be reduced by more than the overall percentage applicable to all other PPAs.

GROUNDRULES/CRITERIA FOR DEFENSE BASE

Once having analyzed these provisions, we set about the business of determining the basic groundrules and criteria to use in establishing the defense base from which the Gramm-Rudman reductions would be made. The Conference Report of the Continuing Appropriations for FGY 1986 directed the level of PPA for each appropriation title and account, and this was followed without exception.

Gramm-Rudman was dealt with simultaneously while finalizing the FY 1987 budget. Our first consideration was the flexibility provided for Military Personnel. We analyzed carefully the impact that a reduction would have in this critical area and concluded that the gains in quality and morale of our servicemembers, as well as in recruiting and retention goals, was one of our major achievements of the past four years and could not afford to be lost. The full 5 percent sequester in the Military Personnel appropriations would have required a significant cut in end strenght—about 280,000 personnel—and this simply was not a viable option. Therefore, the Secretary recommended and the President directed that we exempt virtually all Military Personnel costs. however, small adjustments in the Military Personnel accounts were possible, such as: PCS Travel, the early release of Active Duty Military Personnel planning to leave anyway; and slower growth in some extra and special school training for Reserves. These could be tolerated without detrimental force structure reductions.

Our next step was to determine the funding base from which reductions would be made. As specified in the law, three sources were identified for utilization of cuts: new budget authority enacted in FY 1986; unobligated balances of FY 1984/1985 budget authority (also Shipbuilding and Military construction unobligated balances of FY 1982/1983 budget authority); and unliquidated obligations, or termination of existing contracts. We chose not to terminate contracts for two reasons. First, our desire was to have the least impact on the ongoing program. Terminating contracts would have been very disruptive to programs underway. Secondly, sufficient time was really not available for thorough cost analysis, as required by the enacted legislation, to ensure against loss to the Government. Unobligated balances in the base were not excess, but had the effect of spreading reductions as much as possible.

The Services were then requested to recommend candidate PPAs for exemption and some basic rules were applied. The President's defense priorities of the FY 1986 budget would be adhered to and we also sought to preseve program execution and management efficiencies. In addition, the Services were cautioned to consider exemptions carefully, since some other program would have to pay the price. The NFIP programs were the responsibility of the Director of Central Intelligence to deal with in terms of the Gramm-Rudman-Hollings reductions.

The Service recommendations were collected and reviewed by OSD from the standpoint of program execution. Consequently, the Secretary of Defense recommended and the President exempted a number of firm-fixed-price contracts and multiyear contracts, which constitute specific PPAs and which have insufficient reserves to absorb Gramm-Rudman-Hollings reductions. This was done so as not to lose the benefits of well-negotiated contracts. The reductions not provided by such programs were distributed proportionately to other nonexempt programs in the same accounts. The amounts involved are not a large proportion of the total reduction—$259 million, or 1.9 percent—and exempting them will save the Department substantial sums.

Additionally, the Strategic Defense Initiative was exempted from sequstration. This program had been reduced by one billion dollars from the President's request in the appropriation process. Further reductions were deemed unacceptable.

Application of these decisions resulted in each DOD program, project, or activity being reduced by 4.9 percent, with a total budget authority reduction of $13.6 billion. Of this, $11 billion was reduced from new budget authority enacted in FY 1986 and $2.6 billion was reduced from prior year unobligated balances. These budget authority reductions achieved outlay reductions of $5.2 billion in FY 1986. The balance would be realized as reduced outlays in the outyears.

IMPLEMENTATION IN DEFENSE

Written direction by Deputy Secretary Taft was made in January to all DOD components to ensure funds are, and remain, unobligated through final implementation of the President's sequester order. Also, my office has withdrawn the applicable funds from all DOD components and placed these funds in reserve.

The Military Departments and Defense Agencies have been directed to ensure that congressionally approved programs are executed with minimum disruption, and that the President's Strategic Initiatives are afforded maximum protection. Reductions are to be applied selectively to readiness programs in an effort to minimize this impact, particularly with regard to the ability to respond where and when deployments or redeployments are necessary. The existing force structure is to remain as fully manned and equipped as possible, and "Special Operations Forces" resource programs that are not PPAs are to be fully protected. Also, the Services have been cautioned to exercise extreme care where contracts have been negotiated but not awarded, so that renegotiations or program restructures that will result in higher overall costs to the program are avoided.

The Director of Central Intelligence is complying with P.L. 99-177 as applicable to all programs for which he is responsible; defense components will not make changes to such programs.

FLEXIBILITIES FOR THE FUTURE

It is very possible that problems will surface in the months ahead on some specific reductions made that could not be predicted at the time the sequestering plan was developed. Defense has sustained a sizeable reduction in fund availability as a result of Gramm-Rudman-Hollings, and as I indicated earlier, this comes on top of the significant reduction already made to DOD's FY 1986 request. The $11 billion cut to new B/A as a result of Gramm-Rudman-Hollings, when added to the $24 billion cut from our request by Congress, produces a total of $35 billion lost in FY 1986 alone. The $2.6 billion reduction to prior year unobligated balances is further compounded by the $6.3 billion in prior year funds that were set aside by Congress. It must be recognized that reductions of such a magnitude cannot continually be made against defense resources, with the expectations that we will still be able to deliver the program levels as initially intended by the Congress. The continuous contributions that defense makes to deficit reductions will take their toll in the form of a lesser national security posture and a weakened commitment to our allies and the struggle against Soviet aggression. Thus, it is essential that Congress continue to entertain flexibilities for defense in any future Gramm-Rudman-Hollings or deficit reduction actions.

Although the Department is not suggesting the need for future sequestration, it would be more realistic if the President and the Secretary were to have future flexibilities, such as: (1) the continued exemption for Military Personnel; (2) a general flexibility in lieu of specific PPAs; (3) the elimination of restrictions on congressional adds; and (4) the elimination of the "net loss" caveat regarding contract terminations. Let me discuss these flexibilities briefly.

We particularly emphasize a need for continued flexibility in the Military Personnel accounts. Reductions in defense outlays in the magnitude of 18 percent—as being discussed by CBO in FY 1987 for example—would require a disastrous reduction to our force structure. Additional reductions would have to be made in discretionary allowances and reimbursements, as well as school, special and mobilization training. What then are we offering our servicemembers that would support recruiting and retention?

The "specified" PPA application should be eliminated in favor of a general flexibility for defense. This would be more appropriate and efficient for the lump sum appropriations that defense receives.

Congress added a number of programs to the President's request in a non-Gramm-Rudman-Hollings environment. It appears Congress might agree with DoD, that in a Gramm-Rudman-Hollings environment, congressional adds should not be treated differently than programs requested by the President. If the DOD analysis indicated adds were of a lower priority than programs requested by the President, Congress may wish to concur with the Department's assessment.

Lastly, we did not advocate termination of existing contracts, even though it is permissible in the enacted legislation, because of the caveats accompanying such actions. Serious consideration should be given to the elimination of the "net loss" provision. For example, consider the possibility that a net loss in the year terminated could be considerably less than termination at some future time.

CONCLUSION

This concludes my comments about the implementation of this legislation within the Department. I would add my own personal support to the Department's position on the serious need for flexibilities in defense programs should future sequestration actions be deemed necessary. We are at a critical phase in our long-term commitment to acquire the defenses necessary for our national security. This commitment sends a strong message to our allies and adversaries alike.

I would be happy to respond now to any questions you may have.

Mr. DICKS. Why don't we have the budget officers from the Services now come up?

Mr. McDADE. Could I ask some questions before we do that?

Mr. DICKS. Absolutely.

IMPACT OF FY 86 SEQUESTRATION ON DEFENSE PROGRAMS

Mr. McDADE. This is a question that I think we need to get your guidance on. I would like to put this to you and if any of the other budget officers want to respond, I would be grateful.

We know that the Fiscal Year 1986 sequester hit every single one of these items that you are talking about, almost every item suffered. And included in this were funds for operations such as flying hours, etc. And as a result of the first sequester, in nearly every instance, there may not be enough money to carry out the type of activities which the Congress authorized, and activities that we, at that time, deemed essential. We can use the flying hours or any other example that would be appropriate.

We are now trying to look at Fiscal Year 1987, however, I think that we are way behind the power curve because we do not have a feel exactly for what the actual impact of the Fiscal Year 1986 sequester. We have the dollar cuts available, but we do not know the impact of these cuts. Some of it is in procurement and you think, well, there is going to be a little less procurement. How do you manage that? I am not absolutely sure. Some of it in operations and maintenance, less flying hours, less steaming hours, I cannot make out exactly what the effect of the impact of those dollar reductions are. And what I would like to do is to get some kind of an idea for the Committee and for the record as to what happened?

IMPACT ON M-1 TANK PROGRAM

I see, for example, just to use an item, the M-1 tank, we budgeted a certain amount. The sequester was about $75 million, procurement account. What did you do with the $75 million cut? Was the procurement slowed down, stretched out or stopped, or what did you do?

Mr. **Helm**. Well, I think that maybe General McCall can speak to the specifics of the tank program itself. As for the impact, in general, Mr. McDade, the $11 billion goes away overnight, but the implications of that and the managing of the reduction are going to take some time. I mean it is going to be up to the program managers who suddenly lost those dollars to deal with that. They will be looking for ways to absorb that reduction without having a disruptive impact on their program execution. That is the guidance they have been given, but it is going to take some time to collect the finite results, which I know you are looking for. We are going to have a very difficult time at the overall level and the level that this goes down to—the base commander level, the ship commander level, things like that. It is just going to—I wish we had an instantaneous assessment for you.

Mr. **McDade**. When do you think that you will have it?

Mr. **Helm**. We will be trying to accumulate it constantly after March 1st.

Mr. **McDade**. I understand the problems and I know the difficulties that you are facing as a manager, particularly in the budget office to try to follow these cuts all the way through, but that is the problem that we have. We can look at a dollar number, and you know, I can look at that one that I used as an illustration and wonder, have they slowed down procurement of M-1 tanks? I do not know that. And what we need to know is how those dollars react through the system, in readiness and in procurement and all the rest of it. We are marking up the Fiscal Year 1987 bill in kind of a haphazard fashion, without knowledge of what those specific cuts in Fiscal 1986 did and where they went.

So I do not know how much time you have to get those impacts? How much longer do you think that it is going to take? Do you have any kind of a guesstimate?

Mr. **Helm**. Well, I do not have any specific date. About the best offer I could make to you, Mr. McDade, is in 30 days to come back to you with what we see at that time, and then come back 30 days later and try to give you a cumulative picture as we see this developing. That is—I would be willing to—certainly happy to try to do that with you and work with you on this.

Mr. **McDade**. I think that would be very helpful because we are being asked a lot of questions right now, on both sides of the aisle, what is the level for the functions of the DOD in Fiscal Year 1987.

You look at the Fiscal 1986 dollars, but if you cannot trace where they went, we cannot really describe impacts.

Mr. **Helm**. I understand.

Mr. **McDade**. And so, I think a 30-day exercise for this side of the table will be very helpful to us.

Mr. **Helm**. It might not be a 100 percent picture, but we could try to give you a partial one, as the things come in—we would try to collate and summarize the information for you.

Mr. **McDade**. What bothers me most about it is not knowing where the cuts hit. Not knowing whether there might have been a program that was really busted because of the impacts of the sequester order, and that is what I am trying to get to for purposes of information on Fiscal Year 1986 and looking out toward what we have to be very careful of in Fiscal Year 1987.

Mr. **Helm**. Well, let me assure you that we are looking for the same thing too, because, unbeknownst to us, as execution flows through, there may be things that develop a problem. Those cases, quite frankly, we are going to have to come back to Congress on and ask for a little help in putting them back on track.

Mr. **McDade**. Okay, as soon as you can get the information to us, we would appreciate it.

Mr. **Helm**. Yes, sir.

Mr. **McDade**. Thank you, Mr. Chairman.

Mr. **Dicks**. Obviously, if the order does not go into effect until March 1, right?

Mr. **Helm**. Yes.

Mr. **Dicks**. I understand that program managers have been alerted. I have been out to a few bases, and they are telling me, "Hey we are going to get X number cut off of our O & M money in the middle of the year. We are going to have to curtail certain things that we were planning on doing." It is going to be a real challenge, I assume, for base commanders and the program managers to do this.

Mr. **Helm**. Exactly.

Mr. **Dicks**. I think that it would be very useful for you to give the Committee, at some point, in a month or whenever, a picture, so that we know where the cuts were made. I think that would help our staff, in particular, in preparing for the 1987 mark-up.

I would assume that we are going to try to move this Bill much earlier this year, because of the new requirements of Congress. And I am told that we are not going to be able to take the 4th of July recess unless we get our work done. That may be one of the greatest spurs to activity up here, that I can imagine. But now, let us have the budget officers come up.

SEQUESTRATION PROCESS

I want to welcome all of the budget officers. I would like to ask each of you to describe how the sequestration process for Fiscal Year 1986 was handled in the respective service departments?

In particular, was it an operation handled primarily by the Comptrollers as opposed to program managers? Was it pretty much a mechanistic operation or did it involve a lot of give and take? And how did the preparation of the Fiscal Year 1987 budget impact on your approach to sequestration? And finally, did the sequestration process consume an extraordinary amount of time and effort?

I assume that it did.

Have you done a work-load assessment on what it took to do the Fiscal Year 1986 sequestration?

General McCall. Sir, first of all, just let me respond to your questions and then perhaps——

Mr. Dicks. Just make any comments generally about the process.

M–1 TANK PROGRAM

General McCall. You asked some questions about the tank program, in particular.

The operation in the Army was a partnership operation between both comptrollers and program managers. It even involved in some cases, in the case of our M–1 community bringing those managers into the Pentagon who, all that they knew about Gramm-Rudman-Hollings was what they had read in the local paper and having some classes on it and alerting them on how to manage those post-camp questions in the event of sequestration. We had a second meeting after it was announced and in some cases, we had to send teams out to our buying commands, for example, where it was not propitious to bring the managers in. And we talked to them about sequestration. As you might expect, everybody wanted to be exempt and we had to give them sort of the law of the land about that.

IMPACT OF SEQUESTRATION PROCESS ON THE ARMY

Once decided, as you know, sequestration is a mechnical process; it is a process of making those withdrawals. But there was much give and take in the Army before that was decided.

First, in anticipation of what flexibilities we might have and then even after those flexibilities were decided, within a PPA where you did have flexibility how you would operate within that?

And, sir, I cannot quantify the amount of person power that has been put into this exercise. It has been very time consuming and draining exercise for all of us and the timing of the issue is such that the 1987 budget was not formulated on the basis of knowing what you had done in 1986, because if you review the calendar of that, our 1987 budget was very much locked up before the actual impacts of sequestration could be known.

Mr. DICKS. So, it did not really impact on that budget at all because it had already been submitted?

General MCCALL. Well, the dates of submission were past the announcement but it had already been formulated, yes, sir.

Mr. DICKS. Any particular problems that you saw?

M-1 TANK PROGRAM

General MCCALL. Well, as I said, again, reopening and discussing priorities within the PPA—I might speak to the tank program as an example of bringing some of these things to resolution that are beyond our control.

The number of tanks to be procured in the Fiscal Year 1986 contract with General Dynamics Land Systems is under negotiation as we speak. The budget line is for the tank and the engineering support that pertains thereto. We clearly would like the Army answer to be 840 tanks but we have to procure those with adequate engineering support.

So, although our project manager has made an estimate of quantity numbers he may have to cut, we are very reluctant to release that because our across the paper position with General Dynamics is going to be just to reach for the highest possible number. So, here is something that——

Mr. DICKS. That you can get for the money that is available?

General MCCALL. Yes, sir, and also we can provide the adequate support. You have to not just necessarily go for the quantity, so in answer to Mr. Helms' question, if we can be back in 30 days with an answer for the number of tanks, it is when we can get the bottomline signature from the parties. Even if we are ready, the other party might not be.

Mr. DICKS. You are not on a multi-year contract on tanks are you?

General MCCALL. Some aspects of the tank are, sir. We have the——

Mr. DICKS. Did we not have a Congressional add to tanks last year?

General MCCALL. No, sir, we requested 840, and it was cut at one point by the Senate to 720 but then the contracts were restarted in 1984.

Mr. DICKS. Mr. McDade?

Mr. MCDADE. Yes, thank you.

General, I heard you talking about negotiating back and forth on the tank program and I am using this as an illustration because there is a $75 million reduction in the program. I assume that $75 million is going to hold for Fiscal Year 1986.

General MCCALL. That is the sequestration withdrawal.

Mr. MCDADE. Here is a program that you have got going and you ramped it up and it is going along pretty good and here comes $75 million taken out of it, under the sequestration. What I need is a best guess, if you know, about what impact that has on the desired production goal?

What corners will be cut? What could be sacrificed?

General MCCALL. Well, we are trying to sacrifice as few tanks as possible, from the quantity procurement. As I said, the flexibility, the cut was made by the PPA. And the question is often asked, why do you not take more spare parts from the tank? The replenishment of spares is a separate PPA. So that you get it there, but you do not have the ability to make that trade-off. So we are trying to negotiate the higher number.

Now, recognize that the available funds to the tank program manager began with his request which has been cut in several review processes. Congress, in its review, marked down the tank program and gave us the same quantity. Then, on top of that came Gramm-Rudman-Hollings. So in many respects, this is sort of the last straw that takes him down to perhaps a non-negotiable position to get 840 tanks.

Mr. DICKS. As I understand it, what you said is that you have a certain amount of money that you have now, to buy those tanks, but you are negotiating with General Dynamics. So that what you are trying to do is to get as many tanks as you can for the money that you have got available for procurement, right?

General McCALL. Yes, sir.

Mr. DICKS. That is a negotiating process. So even though you took a cut of $75 million in that procurement account, that does not mean that you are going to necessarily automatically reduce the number of tanks you get. You are going to say to the contractor, you are down this far on the learning curve, we think that you ought to be able to produce these tanks for a little bit less than you did last year and we think that you can get 840 tanks or whatever it is, 820, for this amount of money.

General McCALL. The authorization is hard fought and we——

Mr. DICKS. You are in a negotiation and it is like two lawyers.

Mr. McDADE. Did you say that that $75 million cut could represent a number below which you could not go but your negotiations——

General McCALL. It might not and we——

Mr. McDADE. What would be the impact of that?

General McCALL. Well, we might buy 720 tanks.

Mr. McDADE. So it could scale back the procurement?

General McCALL. Yes, sir.

Mr. McDADE. What else could it do?

General McCALL. In that particular system?

Mr. McDADE. Yes. You know, I am just trying to get a feel——

General McCALL. I am going to field a balanced program and the engineering support change proposals needed to support that number of tanks is what we will contract for.

Mr. McDADE. So you are liable to end up getting fewer or stretching out the contract?

General McCALL. And we will just have to put those tanks on the end of the 7,000 other——

Mr. McDADE. Any other options, General, that might be available that you could enlighten me on? I recognize price and I recognize quantity. I recognize——

General McCALL. For example, I have talked with the tank program manager, and he feels that much of his negotiation latitude is predicated on the corporate view of whether Gramm-Rudman-Hollings is a one-time aberration or here to stay. And so, he is trying to get General Dynamics, clearly their view of the world is different if they think that they are going to be on a level rate of tanks back in 1987.

And so, all of that impacts upon the process.

Mr. McDade. Okay, thank you, General.

Mr. Dicks. And then what you are saying is that if General Dynamics thinks that Gramm-Rudman is going to take big chunks out of the defense budget, and we are really down to a production of 720 or 650 or; then all of a sudden they are going to be a lot more nervous about the cost per tank, because they have got all of this equipment capability——

General McCall. All of the facilitization which has to be amortized.

Mr. Dicks [continuing]. Amortized across.

General McCall. That is precisely accurate.

Mr. Dicks. Let's hear from the Navy next?

IMPACT OF SEQUESTRATION ON THE NAVY

Admiral Smith. The execution of the Gramm-Rudman-Hollings sequestration on the Navy was largely done by the budget process. The principal reason for that was time. In fact, the decision to protect programs really occurred over a very short period of time, principally from the end of the working day on 30th of December, until the close of business on the 2nd of January. So that there was not really time to discuss with the program managers what their feelings were. Fortunately the Navy has a lot of activities centralized in Washington. We were able through the program sponsors within the Navy staff, to get some feel for key programs that were in the firm-fixed price, or multi-year category.

So we took those programs that met that business decision strategy, looked at them, got the Secretary's approval and submitted those to be protected.

In fact, within a week or ten days, we learned that there are a lot of other program managers out there who thought that they should have had a vote. Reviewing their requests and their requirements, we came to the conclusion that we were 99 percent accurate relative to the business strategy that Mr. Helm described earlier from the protect standpoint.

SHIPBUILDING ACCOUNTS

The impact on the Navy is somewhat different than for the other services, particularly in shipbuilding because of the time it takes to pay out the dollars for ship contracts. We are talking about five year money, so that in response to Mr. McDade's question, when will we know? We are not going to know until the middle of 1988, for example, for a ship contract that was signed last month, whether we are really short or not. That will be a function of a sub-set of contracts that will have to be negotiated after the basic ship contract price has been established. Those negotiations will occur at the appropriate times, six months, a year, 18-months, from now, depending on the market factors that are at play to determine whether we negotiate an aggressive good deal for the Navy and the country or whether we do not.

For example, in the AEGIS cruiser, I have some nine or ten different sub-sets of contracts involved in delivering a complete ship. Congress has supported the Navy for a number of years in the full pricing, the up-front pricing of the full ship. Obviously, when you take a 4.9 percent cut, you no longer have a full priced ship.

Mr. DICKS. Unless you have overstated the cost of the ships. I can remember when just a couple of years ago, we were told, we have so much money in the shipbuilding account that we can fund the battleship *Missouri*, from savings. This year we heard the same on *Wisconsin*. So it does not look to me like this is exactly the tightest account that has ever come along the way.

Admiral SMITH. We are describing the process, Mr. Chairman, and I would add that each ship budget is presented based on the negotiated contracts, most recently completed before the budget submit, to which we add only the inflation costs.

Mr. DICKS. But what if inflation came down dramatically? I suppose that is the reason why we have this excess in the shipbuilding account in the Navy that allowed us to finance these other activities.

Admiral SMITH. The real reason that it came down is because——

Mr. DICKS. And good negotiating on the part of the Navy.

Admiral SMITH. The market place was ripe for good negotiating. Because the inflation is taken out in advance by OSD or Congress, depending on where that budget is at the time the new inflation calculations are arrived at. In that sense, we may have sufficient dollars in the AEGIS cruiser account to fully deliver a complete ship.

Mr. DICKS. But you might not?

CIVILIAN HIRING FREEZE

Admiral SMITH. And we might not. And we will not know the answer until those contracts are signed. In a very simplistic sense, we, in the Navy, spend money in two ways. We spend it by paying people accounts and we spend it by writing contracts. And those are the only two ways my budget people can spend money. So, immediately when we began to sense the uncertainty in the 4.9 percent, the Navy put on a civilian hiring freeze and we did not do that for any reason except budgetary.

We did that so that we would drive our projected budget dollars, taking away the Gramm-Rudman-Hollings cut, in line with the work force, in the anticipation that if we did that aggressively and we did that early, we could preclude the furloughing of work force at the end of the year.

You are really not going to know the answers as we execute the budget. The manager is going out there where a can do attitude exists in all of the Services, and he is going to say, okay, we will go do it. First they will give you the gold watch treatment that says, I cannot do it, you have got to give me more money. Then when there is not any more money, because 4.9 percent is the law, that $75 million that came out of the tanks, is the law. He will say, what the hell, I will do it. We will not know the effect of his really trying to do it, until the contract is signed. Anything up until that point, is conjecture because he does not know what he is going to negotiate in that process.

Mr. DICKS. Can he sign that contract, if he does not have the money?

TOMAHAWK MISSILE

Admiral SMITH. What usually happens, I do not know about the tanks, but let us take Tomahawk Missiles. Within the Tomahawk Missile account is test equipment, initial spares, and other pieces of that entire program. He can sign any of the contracts for which there are enough dollars in the account to execute the contract.

Now, what does that really mean? In the Navy it means a guy may defer the test equipment buy until the next year. Can we get by without that $75 million? Hell no, we need that number of tanks or we need that number of missles, but for today, we will go and negotiate the first contract that comes up with the dollars that are there.

If we have a little savings, then what do we do? We roll that in to the next contract. When we get down to the point where we cannot sign the last contract, because there are not enough dollars available, we will not sign that contract.

Mr. DICKS. It gives you an added incentive if you are the program manager to try to negotiate the contracts within the funds that are available.

Admiral SMITH. There is not any better incentive.

Mr. DICKS. So, for those people who have been yelling that we can do more with given funds, this will be a real test of that premise.

Admiral SMITH. Industry has a piece of this action because they see that he is going to negotiate that contract for what is available.

Mr. DICKS. Or they do not get a contract.

Admiral SMITH. Or they do not get a contract.

I mean there is a piece there, and that is a part of it. Now, in the O & M account, which is of great concern to most people, the Navy took——

Mr. DICKS. It is a very big concern to me.

Admiral SMITH. The Navy took the position that every activity group within a PPA and every sub-activity group, down to the smallest denominator, would be equally cut at the 4.9 percent level.

PUBLIC SHIPYARDS

Mr. DICKS. You did a good job on that Tomahawk. We now understand that. What happens to a public shipyard like the one in Philadelphia or the one in Bremerton, Washington, where I am a little more familiar?

Admiral SMITH. The public shipyard is affected by the overhaul package now. We took $1.3 billion out of the Navy's O & M account. In that $1.3 billion there are a lot of pieces of the day to day operation, including some of that work force pay that we are now not paying because of the freeze. There is probably one overhaul or maybe there are two that we will have to defer to the next year. The OSD position, the Navy position is that we do not backlog overhauls and we do not want to backlog them but sooner or later——

Mr. DICKS. But you are pretty well caught up now in overhauls are you not?

Admiral SMITH. We are pretty well caught up. But there are maybe one or two overhauls that were scheduled to start in July—

Mr. DICKS. That you will defer to next year?

Admiral SMITH. That we will defer to next year. However, that does not answer the whole problem, because now you go to the individual base commander and what does he do? He looks at his maintenance of real property backlog, which is realistic and that usually involves the local contractors in that community. So he says, I will not pave the parking lot this year. I will not put in shrubs and trees that the General or the Admiral down in the passageway wanted and the net effect is going to be that that $1.3 billion, except for fuel or some spare parts, will not get spent in the local economies because it is not there.

Mr. MCDADE. Admiral, you were describing the scenario of trying to execute a contract somewhere in the outyears without 100 percent funding upfront and you would not execute that contract until you went through the testing and design, etc

Do you not end up with an unobligated balance in the outyear?

Admiral SMITH. We really do and that is a problem of great concern because——

Mr. MCDADE. Well, if you do that, Gramm-Rudman-Hollings says that you look at BA in unobligated balances, does it not?

Admiral SMITH. That is right.

Mr. MCDADE. So, it sounds like you are in a catch-22.

Admiral SMITH. Absolutely. We have known that ever since the bill came on the street.

Mr. MCDADE. I realize the difficult management here, but how can you justify putting off a contract if you are going to end up with unobligated balances and take further hits out of them?

Admiral SMITH. There are a lot of factors that go into signing that contract. And now, let us suppose it is for a ship that delivers in five years. We have the decision to make, do we buy the engines two years early and then pay to store them? Or do we buy them when they are due and have them delivered later? Maybe we get them cheaper if we buy them now, but in fact, if the manufacturer is backlogged he could not deliver them any earlier anyway. Those are all factors that decide, whether we move that contract up or not.

Now, clearly there is an incentive on the program manager's part to work with his unobligated balances, because if Gramm-Rudman-Hollings comes back again, the law requires the unobligated balances to be——

Mr. MCDADE. Budget authority.

Admiral SMITH. That is right.

Mr. MCDADE. That is why I thought that the scenario that you were describing under the restrictions that you face, to delay until 1988 or some such year, perhaps delaying a contract would be a snake that would come around and bite you with Gramm-Rudman-Hollings again.

Admiral **Smith**. Well, there are more than enough variables for the program manager to deal with. He really cannot cope with them all because the problem keeps changing and ideally, he would like to obligate all the money right away, but there are not enough contracts people out there to do that across the whole spectrum of the Defense Department and that is one of the problems with unobligated balances. What you usually do is let the key time of the negotiation be the driver—when it is the best time to sign and to deal with industry for that particular product. That becomes the number one issue because you want the best price for the product.

Now, if that is not the driver, then you go back to some other combination.

Mr. **McDade**. Thank you, Mr. Chairman.

FULL FUNDING

Mr. **Dicks**. The Navy and the Defense Department have always been big on full funding. We want full funding for that carrier, for that Trident submarine, that AEGIS cruiser. What you are really saying is that you do not know what full funding is. You give us the best number you have, but what you are telling me, is that you do not have any real idea until you negotiate those contracts, of what it is actually going to cost to get that ship.

Admiral **Smith**. And neither does industry know what that ship costs until the contract is negotiated.

Now, what we do——

Mr. **Dicks**. So, why is full funding so important then?

Admiral **Smith**. Full funding gives full disclosure. It is not the camel's nose under the tent. It does not give me ten bucks, then I will go buy this ship, and then I am back every year asking for more and more. It is a partnership arrangement between Congress and the Defense Department that we arrived at full disclosure so that you could see the costs, the full costs of that ship.

Now, if you incrementally fund that ship, then you do away with the unobligated balance problem. But we are back every year for another piece. Next year, I want the rudder and the screws and the main engines, and next year, I want the fire control system or the mast. And——

Mr. **Dicks**. So it has been more Congress demanding from you a complete picture of what it is going to cost so that there is not this kind of gaming.

Admiral **Smith**. Absolutely.

Mr. **Helm**. It is full funding to the extent that the methodology of calculating the full costs of a system allow you to——

Mr. **Dicks**. And Mr. Secretary, you are saying that the numbers that are sent up here, are, in your judgment, realistic?

Mr. **Helm**. Yes, that is right.

Mr. **Dicks**. Your best estimate.

Mr. **Helm**. Yes.

Admiral **Smith**. The best estimate in the real world. We take the last signed contract for that project.

Mr. **Dicks**. But have you been getting these ships less expensively?

Admiral **Smith**. Well, almost every ship that is coming up, no. A lot of them are in a flatter curve, 688 Submarine is a good example, that the costs are continuing to come down, maybe 2 percent in that region, that the competition is being played for its maximum advantage.

And we are competing, currently competing every ship program the Navy has except for Trident. Every ship is being competed.

Mr. **Dicks**. Except for Trident where there is no competition, at this point?

IMPACT OF SEQUESTRATION ON THE AIR FORCE

All right, let us hear from the Air Force then.

General **Smith**. Well, it is not too much different than what you have already heard. We operate in the Air Force, principally in the Comptroller and the budget area in terms of providing guidance. The process was very mechanistic once we were given the PPA listing and the process by which the percentages were to be reduced. About the only thing that we did in terms of allowing flexibility from our operating commands, was to take the O & M reductions and provide those to the commanders and let them make a judgment as to where they could best operate their commands within the reductions at the major force program level. And given that, then the process, as I say, is very mechanical in nature.

Again, for the 1987 budget, there was very little that we could do in terms of looking at 1987, with 1986 Gramm-Rudman-Hollings in the background, because that process had been essentially completed.

PROCUREMENT PROGRAMS

Mr. **Dicks**. You have a number of major programs that are coming out now. New procurement programs and a lot of your programs are expensive. So are the Navy's and so are the Army's, but obviously the Air Force has some big ones. How do you see this affecting new procurement items, like the Midgetman program or the C-17 for example, in the future?

General **Smith**. At this point, in terms of the cuts that we took in C-17 for example, it looks like there might be a slight delay in the contract award, perhaps downstream for full-scale development, something of that nature. But we do not see any impact on NAVSEA at this point in time, but again as Mr. Helm pointed out, in his comments, it is too early to tell in most cases what the actual impact is going to be. We are still assessing that impact and still asking for the impacts from the project managers, and as a matter of fact, from the commands.

Other procurements are a good example. We have between 300 and 400 line items in the other procurement accounts and we are just now beginning to gather the data on that as to what the impact is.

Mr. **Dicks**. What Air Force programs are exempted under the fixed-price, multi-year?

General **Smith**. We have the GPS account, I believe was exempt, the IONDS account and the—if I recall correctly.

Advanced procurement for the Defense Satellite Communications Systems, and Advanced Concepts were the exempt programs. Those were totally exempt.

Mr. DICKS. B-1 was not affected?

General SMITH. The B-1 took its fair share of Gramm-Rudman-Hollings reductions.

Mr. DICKS. But it did not affect the multi-year contract?

General SMITH. At this point in time, we are still operating in the multi-year. We have only about $47 million or so left, if my memory serves me correctly, in terms of research and development funds for engineering change orders.

We are operating down at the contract target value rather than slightly above target, so that we are very close on the B-1. We are down to a baseline program of $19.6 billion as opposed to the original $20.5 billion that we had reached agreement on.

Mr. DICKS. So multi-year worked out very well for you?

General SMITH. Well, we are not sure yet. We are still examining B-1. There may be some impacts that we are not aware of at this point in time, as a result of Gramm-Rudman-Hollings.

Mr. DICKS. I would hope that you would not allow the multi-year contract for the B-1 to be breached when you had the authority to exempt it?

General SMITH. It is our goal not to do anything like that, but we are now looking at the cost of that program with the amount of dollars that are left, and we have to realize that——

Mr. DICKS. Could you get money in 1987 to offset that?

General SMITH. We have a request for research and development money in 1987 that is in the budget, but that is to clean up the test program at this point in time. This is part of the $19.6 billion baseline in base-year dollars, or about $.9 billion in that program under the original program, which was $20.5 billion.

We are now examining the results of the series of reductions that took place in the B-1 program over the past year.

These include some undistributed inflation reductions that were allocated within the 3010 accounts as well as some direct reductions of about $300 million from the Congress. There was also the Gramm-Rudman-Hollings reduction and another $300 million reduction from prior year unobligated balances that became a part of the $6.3 billion.

So, from January of 1985, until about now, there is about $1.35 billion in procurement alone that has come out of that program. In RDT&E, there has been another $.1 billion reduction. So it is a substantial cut, and as I say, we are examining the impacts right now in that program.

Mr. DICKS. I assume that you are not going to breach the multi-year contracts?

General SMITH. We may have to ask for some reprogramming in that account, we are not sure. But we do not intend to look at a breach of contract.

Mr. DICKS. Mr. McDade?

B-1 PROGRAM

Mr. McDADE. Thank you, Mr. Chairman.

I just want to direct your attention to the B-1 program and in the report on the sequestrations, the Air Force lists roughly $250 million as the reduction under Gramm-Rudman-Hollings.

What did this do to you, if anything?

General SMITH. That took away any of the flexibility that we have had in the program in terms of the opportunity, let us say to correct deficiencies that were identified as we went from our present production rate, which is less than one aircraft a month up to the four aircraft rate per month that we are looking at later on.

We are not certain what those impacts are going to be. In other words, going from one a month to four per month, we may have some changes that have to be made in the engineering change orders or potential contract costs (e.g. over target) to the aircraft or in the production flow within the plant itself, as we start ramping up.

So that is some of the flexibility that was there that——

Mr. McDADE. Well, suppose that you get a glitch, how are you going to pay for it?

General SMITH. Then, sir, we are going to have to come back to the Congress for a request for either a reprogramming or a supplemental of some kind.

Mr. McDADE. Where would you be failing that?

General SMITH. Failing that, we would have a lesser number of aircraft produced than 100.

Mr. McDADE. You would buy less and ask us to reprogram it into engineering?

General SMITH. We would have to come back and ask for additional monies to finish up that 100 buy, because we would be in a position of having to renegotiate for perhaps a portion of that contract.

Something that I do not want to do and something that we are not planning on doing, but that would be the impact of that.

Mr. McDADE. But the real world, is that where it might hit you?

General SMITH. The real world is that if there are some major problems in the producibility of that aircraft, beyond this particular point in time, we may have to come back and ask for some additional help.

This was provided for in the language, by the way; that is if we had problems as a result of some of the money being withdrawn, we should come back to the Congress.

But we are now operating at roughly a billion dollars, base-year dollars, below the original $20.5 billion that the program was originally costed at and agreed to between the Department and the Congress.

Mr. McDADE. Thank you, Mr. Chairman.

FLEXIBILITY IN FY 1986 SEQUESTRATION

Mr. DICKS. The Gramm-Rudman-Hollings Act authorized the President to exempt personnel accounts from Fiscal Year 1986 sequestration. Secretary Helm, to what extent was this authority exercised?

You said that it was exercised except for those three items that you mentioned earlier, correct?

Mr. **Helm**. That is right. We exempted about 93 percent of the military personnel account. About $63 billion was exempted from the base.

Mr. **Dicks**. Now, you suggested that Gramm-Rudman-Hollings, also authorized the President to exercise certain flexibility with regard to sequestration made at the program, project and activity level for Defense. But only about 19 of those were excluded from sequestration under the Fiscal Year 1986 authority.

If it was that limited, I assume that the necessity for flexibility was not all that great, was it?

Mr. **Helm**. No. I do not think that that is a reflection of the value of the flexibility, Mr. Dicks. It was a reflection of the particular situation of this year's sequestration, where the amount of money that was to be sequestered was purposely held down by the law, itself. The reason why only about 19 PPA's were exempted was principally the offset requirements—the fact that you have to pay the piper one way or the other.

As I said earlier we had a tendency to reject the idea of going into a wholesale reshuffling of the program.

We made a determination that a 4.9 percent standard percentage reduction was something that could be better absorbed across the board, rather than getting into the very disruptive action of going through every PPA and exempting one and taking another one up or down. You could get into a real merry-go-round from that standpoint.

By taking it across the board, we felt that we protected the priorities of the President and the priorities of the Congress in terms of the appropriation bill. It was relevant only to the 1986 situation. I suspect that if we had to do it again, and if we had to reduce by bigger amounts, we would be in a totally different situation and the flexibility would be very valuable.

CBO ESTIMATE OF DEFENSE OUTLAYS

Mr. **Dicks**. Have you seen the CBO estimates for defense in 1987?

Mr. **Helm**. I have seen their most recent economic report, if that is what you are referring to, the one that we talked about earlier, where they were talking about——

Mr. **Dicks**. For the record give us your judgment on how you view those numbers and what the likely impacts would be if you had to make those levels of cuts?

Mr. **Helm**. OK.

[The information follows:]

The President has already indicated that his FY 1987 budget meets the maximum deficit amount specified in Gramm-Rudman. If those dollar levels, including Defense, were to be approved by the Congress, there would be no need to anticipate a sequester in FY 1987. The CBO report to which you refer does consider an "illustrative sequester," but the estimates used in that document are not from the President's budget. Therefore, I am unable to give you an opinion about how the CBO came up with its figures or what their relationship is to a possible sequester.

SEQUESTRATION IN FY 1987

Mr. **Dicks**. We also have some questions that I will put at the end of the record regarding the 1987 process.

What you are saying right now, as I understand it, is that you are going to be up here promoting the President's budget and in any case, an alternative to Gramm-Rudman-Hollings, which would be at a higher level, obviously for overall defense spending, than what would happen under sequestration.

Is that what basically your view of this situation is?

Mr. HELM. Well, we devoutly hope that we do not have to deal with sequestration, in the context of Fiscal Year 1987, and I think almost everyone associated with the process shares that same viewpoint. We would support the defense request in the context of the President's overall budget and its relationship with the Gramm-Rudman-Hollings requirements.

As far as flexibility is concerned, I touched upon a few areas of flexibility that I think would be useful. Most significant would be enforcing it at the appropriation account level, rather than going down to every PPA, and having some sort of a coordination process so Congress could be assured that its priorities were being given due consideration in the process of sequestration.

But it would be much easier, I think, and much more practical to deal with the reprioritization that a large sequestration would ultimately require if we could do it at the appropriation account level rather than going down to every program, because then you lose the concept of prioritization.

Mr. DICKS. Are you suggesting that you would like the authority to terminate certain programs?

It seems to me that we may have made a mistake in saying that you can only terminate a contract, but you cannot eliminate a program. You are talking about priorities. There ought to be some things at the bottom end of the list that in a tough situation, you can say, these would be nice to have, but in order to do this reduction, we have got to get rid of some of them, in entirety.

Would you like that flexibility?

Mr. HELM. I think that would be useful, especially if we are talking about the potentially large amounts that have been mentioned here. That would be something very useful to have.

Mr. DICKS. It would seem to me that it would be in your vital interest to try and work out an understanding with Congress about Congressional add-ons and Congressional priorities. Obviously, they should be cut, but I think that this may be the key to a better understanding on flexibility in these other areas.

Mr. HELM. Exactly. And in the prioritization process, given that the adds occur before Gramm-Rudman-Hollings, Congress might agree as well that its add is of a lower priority than something else after sequestration is to take place. At least I think that the Department would appreciate the opportunity to make that case and then have Congress deal with that as they so desired.

Mr. DICKS. Well, let us just hope that we do not have to face sequestration.

Mr. HELM. We second that.

Mr. DICKS. Let's hope we can create an alternative that is more constructive than what would happen in sequestration.

CBO ESTIMATE OF DEFENSE OUTLAYS

Secretary Helm, the Congressional Budget Office estimates the defense outlays as presented in the President's Fiscal Year 1987 budget may be understated by about $14.7 billion for Fiscal Year 1987.

Now, I heard your colleague the other day in a very good presentation to the Arms Control Caucus say that these estimates are done with an extraordinary amount of experience and expertise. Rarely has the estimate been off by more than 1 or 2 percent, and that the Department of Defense was taking great offense at those who were suggesting that this budget would be understated by about $14.7 billion for Fiscal Year 1987.

I would like to hear from you on this. What is your view of the CBO estimate? CBO says we have looked at all the past data and the way that money has been spent out in the past and we think the Department has understated this thing by $14.7 billion.

Now, you understand, Mr. Secretary, that if the CBO estimate is accurate then the President's budget would not have complied with Gramm-Rudman-Hollings and would be $14.7 billion above the $144 billion if the President's program was executed. So that this takes on a very important aspect of the debate here in the Congress. Because you are up here asking us to fund your program at $320 billion and if the outlays have been understated then by doing that, we could breach Gramm-Rudman-Hollings.

I know that that would be great chagrin to the Defense Department but I would like to have your comments on that.

Mr. HELM. Well, Mr. Dicks I have been working with outlays for far too long to take offense at anybody's comments on outlays.

The Fiscal Year 1987 defense outlays and the budget authority essentially reflect the amounts that were contained in the budget resolution of last August, the target in the Fiscal Year 1986 budget resolution for Fiscal Year 1987.

The President's request is actually a little down from that budget resolution target in both budget authority and outlays. Outlay estimating is inherently an imprecise process. We have had a pretty good track record——

Mr. DICKS. What was your record in 1985? What did you say that your 1985 outlays were going to be?

Mr. HELM. In Fiscal Year 1985, our plan was $246.3 billion and the actual was $244.1, billion, so we were off by $2.2 billion.

Mr. DICKS. But that is less than 1 percent.

Now, with all due respect to the budget resolution, I would hardly use it as the basis for making a determination of what outlays were going to be. I mean you have to determine what outlays are going to be based on the budget authority and the program as you see it. Isn't that the way that you do it, or maybe you can explain this?

Mr. HELM. Outlay estimates are a product of two things actually. One, they are the product of the historical rates and secondly, they are a product of judgment about what you think the real world is going to look like, and the real world intrudes upon precise historical statistics. We have been talking about one of the more major intrusions on a precise formula today—the Gramm-Rudman-Hollings sequestration. As I think the gentlemen up here have indicated, the sequestration is injecting a huge amount of uncertainty into the actions that the Services are going to take across the board in terms of program execution. We are seeing hesitation and that uncertainty extends into incurring obligations and making expenditures. The CRA again——

Mr. DICKS. That will affect FY 1986, the year that we are in. That is the year that the uncertainty is in and I would suppose that there would be some spill-over to Fiscal Year 1987, but I think that $14.7 billion is a pretty substantial difference, and I think that it would be important for you to put into this record the CBO figures and your figures and try to explain the difference if you could?

Mr. HELM. We can——

Mr. DICKS. Give it your best shot.

Mr. HELM.—We certainly can identify some of the considerations that we feel are relevant factors in arriving at an outlay estimate, yes, sir.

Mr. DICKS. Have you had a chance to see the CBO analysis?

Mr. HELM. There have been staff discussions with the CBO staff.

Mr. DICKS. Is there anything in that analysis that would cause you to reestimate defense outlays upward for Fiscal Year 1987?

Mr. HELM. No, I would not support any change in the estimates right now.

Mr. DICKS. There is nothing in the CBO report that you concur with then?

Mr. HELM. Well, my understanding, if I am correct, is that there is nothing in the CBO report, other than a computer generated estimate of outlays based on historical experience. That does not take into account some of these other real world factors, which ultimately would be the basis for any difference of opinion that we might have with CBO about what outlays are inevitably going to be.

Mr. DICKS. Before this year when you relied on the budget resolution, did you use the same computer approach that CBO did?

Mr. HELM. We had judgment adjustments—my understanding is that the Department has made judgment adjustments every year in arriving at outlay estimates. It is not solely a machine driven process. Real world factors play into it. What we see happening in terms of Service programs, what is happening in terms of the Congressional schedule. The additions to the procurement process that have resulted from legislation that have slowed down execution to some extent. The entire contract obligation process has become more time consuming. We are seeing better audits, which are yielding more savings from contracts. I can supply these sorts of things.

Mr. DICKS. Yes, expand on that in the record.

[The information follows:]

The Administration (DOD and OMB) made a rigorous joint review of all circumstances that affect defense spending in arriving at the outlay estimates for the FY 1987 budget. These factors include historical estimates and actual data, rate trends, obligation and contract award patterns, procurement reform, program mix, the impact of Congressional action and P.L. 99-177, and the effects of reduced progress payments. After careful consideration of all these factors, the Department believes the estimates are reasonable and not significantly understated. It should also be recognized that the Congress, in adopting the Resolution, projected FY 1987 outlays at a level very close to our $274.3 billion estimate.

Mr. Dicks. The CBO says the primary reason for the estimating difference is that CBO continues to use historical spending rates, to estimate outlays while the Administration does not. There is considerable room for judgment in measuring outlay rates. CBO and Administration measurements differ, but produce the same result.

They go on to say, and I quote, "We use the historical outlay rates published by the Department of Defense and computed outlays $14.3 billion higher than the budget estimate for Fiscal Year 1987, and $61.6 billion higher than the budget estimate for the time frame between 1987 and 1991. Using the rates implicit in the Administration's budget of a year ago, we computed outlays for 1987 that exceeded the budget by $15 billion. Also over the last nine years, outlays have grown at about the same rate as budget authority yet the Administration's budget authority request for 1987 grows twice as fast as its outlay estimate."

Apparently they feel that they have used your historical approach and then in this year, for the first time there are dramatic differences. One has to be concerned that we all know that in preparing a budget it is difficult to meet the Gramm-Rudman-Hollings target. If this is true, then it means that the President's budget as submitted was approximately $15 billion above the Gramm-Rudman-Hollings mandate of $144 billion deficit.

Mr. Helm. Well, Mr. Dicks we are moving into dramatically different times here in terms of budgeting for the whole government. And we have seen a lot of perturbations in the last year in the way that business has usually worked in terms of program execution and obligations. Based on judgment adjustments resulting from seeing those sorts of things, these are the figures that the Administration chose to use.

Right now, I do not have any basis for saying they are wrong.

Mr. Dicks. The thing that worries me about it is that if we are operating under the wrong assumptions, it is one thing to talk about $15 billion—but when you are looking at a five-year defense plan, you are talking about $61 billion. Now, that is a big difference in trying to get down to a deficit of zero by 1991 and that is what worries me. Plus, if we miss on this number, it is not possible to circle the wagon. You have to come back and do the reduction exercise over next year. So I think that trying to have integrity in these numbers as much as we possibly can, is very important so that we have a chance to make the appropriate judgments here and that you do not fool yourself.

ALTERNATIVES

I think that the one thing that I get worried about is that the Defense Department is saying, well, we are operating on a budget assumption of $320 billion when you more likely should be thinking about a freeze at last year's level plus a little bit. Maybe that is the best that we can do in this climate of creating alternatives to Gramm-Rudman-Hollings.

And I just worry about having everybody over there not really looking at what is going to be possible and so if we do not have these numbers right and all of a sudden this thing spends out a lot faster, the bow wave is there and we get bigger outlays than we anticipate. I do not think that helps us much in coming to grips with what is going to happen over the next couple of years.

Mr. **Helm**. Well, I can assure you, Mr. Dicks, speaking as the Comptroller for the Department who would have to administer it, no one is less interested in seeing a Gramm-Rudman-Hollings sequester in Fiscal Year 1987 than I am. We have no interest in that whatsoever.

Mr. **Dicks**. One of the problems that we have had over the last several years, is that at times Congress has asked the Administration for some help and some guidance when we have had to come up with a lower number because of national problems. There has been a tremendous unwillingness in the past to deal, at least in the House. I think that there has been a greater propensity to be willing to negotiate with the Senate in considering alternatives in the Senate.

My own view of this is we're going to have to act first over here, then I think it's in your interest to try and work within the Armed Services Committee and this subcommittee. If we have to make some cuts below the $320 billion dollar level—requested in the President's budget, which I can guarantee you that's going to happen, then its important that we get some input from the administration about priorities. I think that will help us in constructing an alternative. And when we're faced with that or Gramm-Rudmann, I think you're going to like the alternative a lot better, and you will always have your chance to improve it over in the other body.

So that's just some advice which I hope you will consider.

I think this has been very useful for us and our staff, and I appreciate your being here.

Do any of you want to say anything else? Anything else for the good of the order here about problems that you see on the horizon?

UNOBLIGATED BALANCES

Admiral **Smith**. I have my own comment in support of Mr. Helm's statement on the outlay issue, Mr. Chairman. We're finding that the time to execute contracts in the competitive environment that we under the Secretary of Defense's initiative have been pressing for, those contract negotiating times are doubling.

We're now competing full scale developments as well as production. Those increased contract negotiation times are a part of that. We feel that is the judgment application to this outlay problem that Mr. Helm speaks about.

Those increases in time result in a build-up of prior year unobligated balances that last year were of concern to the Congress.

That is the sort of trend that gives some credence to applying judgment to the mechanical application of the historical rates for the outlay problem.

So, we see it very clearly that it takes longer and longer to execute. One, because you want to get a good price, and two, because all of the additional steps that we put in to assure the warranty issue is right, that we're getting the right subsets relative to the Small Business Administration set-asides, and the wickets continue to grow, and that takes time.

That is a function of what's spreading this thing out.

CIVILIAN HIRING FREEZE

Mr. DICKS. I understand that. Let me ask you this: Is the across the board cut in civilian employees going to affect your ability to negotiate these contracts? Have you run into any personnel problems in terms of contract administration or being able to negotiate the contracts?

Admiral SMITH. As of this time, we're not aware that any of those freezes are impacting on the contracting process. The freeze really freezes the manpower at the budget levels. For those activities that are at or below their budgeted levels, there is no freeze. So our activities that are already within their budgeted dollars or man-years, they're not under a freeze

So, in essence, we don't see that that freeze will have an impact on the contracting now. The guy that's gone out to hire temporaries to help him with this contract problem, if he is over in total man-years, over in total numbers, and he doesn't have the dollars to hire that person, then it may impact. We're not aware of any serious problem. There are no major programs being affected.

Mr. DICKS. Anything else?

MILITARY PERSONNEL

General McCALL. Sir, I would like to make a comment if I might about the shattering impact of any sequestration on the personnel accounts. I notice that everyone sort of bridled at the large number of active component people that we avoided letting off the roll in 1986 because of a special exemption we have.

But you have to recognize it in those accounts. First of all, they're very closely budgeted. They represent simply in most cases the pay times the number of people. Flexibility is not there.

Secondly, you have the anomalies of current law. You let a $46,000 lieutenant colonel off the rolls, you have to pay him $30,000 in severance pay. You have to get a lot of people out at $16,000 a crack.

So, you have a situation where even the minimum sequestration wreaks havoc in your personnel accounts, and in your force structure. And this is why hundreds of thousands of people fall on the floor as a result of what appears to be a small number.

Mr. DICKS. I want to make sure I understood that. For a lieutenant colonel who makes $46,000, if we let him go, under this kind of an approach, we have to pay him $30,000 in separation pay?

General McCALL. $31,000 and change.

Mr. DICKS. Just one year? Is that a one time only?

General McCALL. A one time thing.

Mr. DICKS. And then—the retirement is calculated based on——

General McCALL. But the issue is not his retirement. The issue is how many dollars you have to take out of that account before that person can go. For that person you've made $16,000.

Mr. DICKS. You don't get $46,000. You get $16,000. Then what about travel? What if he's over in Europe? Don't you have to pay his travel to get him back home?

General McCALL. Other ancillary expenses. That's correct.

Mr. DICKS. Let me ask you this: You said you've put a hiring freeze on the civilian workers. There's another way to deal with personnel, and that is to recruit fewer people at this point in time in light of this hanging over your head. Has that received any consideration in any of the Services? Or are you just hoping that you're going to get exempted on personnel?

Admiral SMITH. I'll speak for the Navy, and say that it's been considered, and we've decided that that's not a wise thing to do. We have 1986 manpower funds allocated by Congress, and we intend to execute the program with Congress' approval.

We need the manpower. We need it to man the ships and the squadrons. We'd not be carrying out our responsibilities to the President if we didn't do that.

Mr. DICKS. I can see particularly in the Navy where you're building up to a 600 ship Navy you're going to need additional personnel to man those ships. In fact, if I remember the budget——

Admiral SMITH. 11,400 in the current budget.

Mr. DICKS. You're off 11,400. So, if you had to cut back from that, that would really have a devastating effect on the build-up to a 600 ship Navy. That's pretty obvious.

Admiral SMITH. Yes, sir.

MILITARY RETIREMENT REFORM

Mr. HELM. Mr. Dicks, just as a related point, we're starting this year with a rather unusual situation in terms of end strength. As you know, Congress reduced the military retirement account by $2.9 billion on the assumption that there would be some changes in the pension laws. The money was taken away, but the law has not been changed yet. We are therefore obligated to pay those pension benefits. The pension money is in the same account as the pay money. We are paying those pensions, legally required pension benefits, out of military personnel accounts.

In the CRA there was the amendment, offered by Senator Johnston, which said we could only do that until May 1st. At that time, if there was not a change in the law which eliminated the need to give that $2.9 billion to retirees, we had to make up that $2.9 billion by not taking new accessions into the military services.

This is an interesting complication that, while not directly part of Gramm-Rudman, affects this whole question of end strength. We either need to be released from that cap by May 1st or there needs to be a change in the pension laws which will eliminate the need to pay military retirees that $2.9 billion in benefits.

So that's an additional little Catch-22.

Mr. DICKS. It sounds like a pretty big problem.

Mr. HELM. It's a pretty big problem, because once again we're talking about a rather significant number of personnel, numbers in the range of 300,000 people, which would be a combination of no new accessions into the service and probably also some involuntary separations to make up that $2.9 billion, which would have to be given to retirees.

Mr. DICKS. Have you discussed this—I assume you've been briefing this problem to the Armed Services Committee.

Mr. HELM. We have been briefing it to everybody, yes, sir.

Mr. DICKS. Where would your relief have to come? Would it have to come from the Appropriations Committee?

Mr. HELM. It would have to come from the Authorization Committees. If there was to be a change in the pension laws, it would have to come from the authorizing——

Mr. DICKS. Let's assume that it gets in trouble.

Mr. HELM. The obligation cap was in an appropriation amendment—in the CRA. So——

Admiral SMITH. Mr. Chairman, if Congress does nothing, the manpower has to be sent home.

Mr. DICKS. Not only that you don't recruit people. You have to let people go?

Admiral SMITH. We have to start taking the actions to recover the $2.9 billion within the Defense Department.

Mr. DICKS. You have to do this between May and October the first?

Admiral SMITH. The end of the fiscal year.

General SMITH. For the Air Force, Mr. Chairman, it would be about 88,000 people.

Mr. DICKS. If we don't get you either the authorization bill that saves $2.9 billion, because of a change in retirement laws, or if we didn't give you relief from the provision in the CRA, would you have to have the $2.9 billion appropriated?

Mr. HELM. It's available in the transfer amount—the $6.3 billion. The $2.9 billion is available.

Mr. DICKS. Oh, that's in the transfer money. So you've got the money, but you've got to get around this restriction, the May 1 restriction.

Now, give me the numbers. That's very important here. Air Force says——

General SMITH. 88,000 people, sir.

Mr. DICKS. These are military?

General SMITH. Military.

Mr. DICKS. 88,000 military, and this would be done between—by May 1?

General SMITH. Start the first of May. Then between May 1 and the first of October.

Mr. DICKS. May 1 and October 1. Does the Army and the Navy know what they have to do?

Admiral SMITH. It's about 90,000 for us. We have a very similar end strength.

General MCCALL. We have not calculated it precisely, sir, but given the normal personnel quotient, where I am, I'd be over 100,000, because I'm in excess.

Mr. HELM. We did an initial estimate, Mr. Dicks. It looked to be about 300,000 active and 176,000 reserve spaces, which is roughly in the ball park of what the Service reps have told you in terms of active strength impact.

Mr. DICKS. What reaction have you gotten from the Armed Services Committee?

Mr. HELM. They're aware of the issue. I haven't gotten a lot of strong signals that they think changes in the pension laws are imminent. So I really don't know what to expect right now in terms of which way it will go. But it has to go one way or the other, or we're going to have a terrific end strength——

Mr. **Dicks**. Crisis.

Admiral **Smith**. The problem is further complicated by the fact that you can't wake up on the morning before May 1 and rip open the curtains and say start, because you have to put plans into effect in advance of that, which will assure the legal requirement for the spending ceiling. Those plans are going to be very disruptive from the standpoint of morale in the Services.

Because we have temporary estimates that say we really have to start putting some of these plans into public knowledge starting in early March. We can't complete, can't be ready to start those actions.

Mr. **Dicks**. What are you asking the Congress to do? Has the administration made a request?

Mr. **Helm**. We submitted legislation to eliminate the cap. That came up here with the budget—a legislative proposal to take the cap off and let us use that $2.9 billion that was included in the $6.3 billion earmarked for transfers.

Mr. **Dicks**. Have you done anything about retirement reform?

Mr. **Helm**. We sent up two plans for changing the current pension legislation; COLA adjustments, I think, were the focus.

Mr. **Dicks**. Will that save $2.9 billion?

Mr. **Helm**. It's estimated to save the required amount of money, yes, sir.

Mr. **Dicks**. But that wouldn't do it the first year. Your plan wouldn't achieve the $2.9 billion savings in fiscal year 1986, would it? Is that over a period of time?

Admiral **Smith**. It saves the accrual through the life of that cohort group, if you will, that's at issue in this budget year. This saving only really affects the guy that's going to come in after it becomes law.

Mr. **Dicks**. So you're asking for relief so you can spend the $2.9 billion.

Mr. **Helm**. In the absence of pension legislation. But we would like the release to use the $2.9 billion that was made available for transfer.

Mr. **Dicks**. And that has to come from the Appropriations Committee?

Mr. **Helm**. I'm not sure if that's——

Mr. **Dicks**. That's very important. Anything else?

BIENNIAL BUDGET

Mr. **Helm**. Just one last quick Gramm-Rudman consideration. We're currently required by last year's authorization bill to submit a biennial budget for fiscal years 1988 and 1989. For the life of me I haven't yet broken the code on how we put together a biennial budget with Gramm-Rudman threatening to take the props out from under us in the first year of that biennial budget.

So we will comply with the requirement, but it's an interesting question which anybody interested in biennial budgeting needs to keep in mind.

Mr. **Dicks**. Well, that will be an interesting challenge for you.

Mr. **Helm**. I'm looking forward to that.

Mr. **Dicks**. The Georgetown Center for Strategic Studies, I know, has done a lot of work on this, so——

Mr. **Helm**. It's in a pre-Gramm-Rudman environment, Mr. Dicks.

Mr. **Dicks**. We left you with some money in your consultants' account.

Thank you very much. We have a few additional questions that we would ask that you respond to for the record.

[Clerk's note.—Questions submitted for the record and the answers thereto follow:]

FLEXIBILITY IN FY 1986 SEQUESTRATION

Question. Secretary Helm, the information reflecting the President's exercise of his "flexibility" authorities first appears in the Joint CBO-OMB Report submitted on January 15, rather than in the Presidential Sequestration Order issued on February 1.

Wouldn't you have gained another valuable 15 days to exercise the authority to trade-off between programs, projects, and activities if you had waited to include this information in the Sequestration Order?

Answer. As a practical matter, we felt that our use of the "flexibility" authorities should be reflected in the information which DoD submitted to OMB and CBO for inclusion in their January 15 report, even though that is not literally required by Sec. 252 of the Deficit Control Act. This approach precluded use of the additional 15 days for purposes of applying the exemption and tradeoff authorities. To have done as you suggest would have required that we calculate the FY 1986 Gramm-Rudman reductions twice, once without use of the flexibility authorities for the Directors' report, and a second time after applying those authorities for purposes of the Presidential sequestration order. This would have been impractical, given the time constraints imposed by the Act.

Question. A member of the Committee was recently in Guam and was told by the head of the SAC contingency there that flying hours are to be cut back by three percent because of the effect of Gramm-Rudman-Hollings in FY 1986. Given the significant drop in oil prices that has occurred in recent months, your fuel costs will be lower than estimated. Furthermore, you have the flexibility under Gramm-Rudman-Hollings to adjust priorities significantly within the operations and maintenance accounts.

Why would you be cutting back on a high priority readiness item like flying hours under these circumstances?

Answer. SAC flying hour reductions referred to at Guam are only for B-52 flying hours. While SAC reduced B-52 flying hours by three percent, their overall reduction was 1.5 percent and the overall Air Force reduction was one percent.

The Department policy requires that Operation and Maintenance appropriations pay a standard price for fuel purchased from the stock fund that does not change during execution from the budgeted price. In the case of stock fund profits, the convention used to adjust the budget has been to reduce the O&M accounts during Congressional mark-up, and direct a refund of this amount from the stock funds to the customer O&M accounts. The fuel refund directed by Congress for FY 1986 was $435.5 million.

Question. What is the situation in each of the Services? Are flat, across-the-board reductions being applied even in those cases where you have authority to adjust for high priority activities? How are the reductions in O&M being administered in each Service?

Answer. A standard reduction was applied uniformly to each PPA within each appropriation. Additionally, each of the Services has distributed this reduction to major commands and claimants. However, within each PPA flexibility and latitude exist and are being used to insure the highest priority functions continue to be accomplished.

REPROGRAMING ACTIONS

Question. Reprogramings are a form of flexibility after sequestration.

Do you anticipate more extensive use of reprograming authority in FY 1986 as a result of sequestration? If so, to what extent?

If so, why couldn't the need for flexibility have been anticipated—and the authority for flexibility exercised prior to sequestration?

Answer. There are two levels of reprograming authority: below threshold changes which are within the authority of DOD, and above threshold reprogramings for which congressional approval is required. The number of below threshold reprogramings will increase to adjust for the impact of the Gramm-Rudman-Hollings reductions especially in cases where contracts have been awarded since the October 1, 1985 baseline for the reductions was established. It is too soon to be sure, but above threshold reprogramings will probably remain at the same level as previous years. The Gramm-Rudman-Hollings reductions will generate a few reprogramings to solve emergent problems, but will eliminate some others due to the absence of available assets. The preponderance of reprograming actions results from a reprioritization of military requirements which will continue to be the main factor. In addition, the Congress created additional appropriation subdivisions in FY 1986 which will generate reprograming actions where none would have been required in prior fiscal years.

We could not have anticipated problem areas and reprogramed prior to sequestration. Much of the DOD budget is executed outside of Washington and the Department does not have real time visibility of all fiscal transactions with which to recognize and react to potential problems. DOD will be better prepared to react to future adjustments, but the leadtime between the OMB announcement of the magnitude of the reduction, and DOD's report submission requirement is too short to permit any effective reaction.

SEQUESTRATION IN FY 1987

Question. Secretary Helm, if the budget impasse is not resolved, and if sequestration through the automatic process as included in Gramm-Rudman-Hollings is implemented to achieve the maximum deficit reduction, what would the impact be on Defense?

What is your estimate of the uniform percentage reduction?

How much savings in outlays would have to be achieved, and how much of a reduction in budget authority would that require?

Answer. Our position continues to be that, if the FY 1987 Budget submitted by the President is adopted by the Congress, the FY 1987 deficit will not exceed the maximum deficit amount allowed by the Deficit Control Act. We cannot at this stage provide a projection of what the impact on the deficit would be if some or all of the Presidents budget proposals for FY 1987 are not adopted. Accordingly, it is not possible for us to give you an estimate of the uniform percentage reduction, the savings in outlays or the reduction in budget authority which could be required if the maximum deficit amount is, in fact, exceeded in the OMB/CBO report which must, under the statute, be submitted to GAO on August 15, 1986.

Question. If it is your view that more flexibility is required, please describe the kind of flexibility you have in mind before sequestration takes place, and how much you believe that present reprogramming practices should be affected.

OSD Answer. The flexibility which the Deficit Control Act provided for the FY 1986 sequester was quite useful in mitigating its consequences for the defense program. This is particularly so for the military personnel appropriations accounts. If we had been required, as the act provides for FY 1987, to apply the full FY 1986 sequester to those accounts, the result would have been a significant cut in military personnel end strengths—about 280,000 military personnel.

If sequestration is required for FY 1987, authority to exempt military personnel accounts will be essential to avoid equally significant and possibly greater cuts in military personnel. In our view, much greater latitude than was available for FY 1986 will also be essential for carrying out an FY 1986 sequester without a serious impact on program execution. While the authority to exempt certain programs, projects and activities (PPAs) and trade off reductions with others within accounts was useful for the FY 1986 sequester, managing any future Gramm-Rudman cuts efficiently will require broader flexibility. We believe that the act should be amended to apply any future sequester at the appropriation account level, and that the provision barring cancellation of any program should be eliminated.

It is difficult to predict how reprogramming practices might be affected by an FY 1986 sequester. Should Congress fail to provide any authority for tradeoffs among PPAs, the choice would be between more reprogramming or appreciably reduced efficiency of program execution.

Army Answer. The FY86 flexibilities provided in the Emergency Deficit Control Act of 1985 were quite useful in mitigating program impacts to the Army. This is particularly so for the Military Personnel accounts. If we had been required, as the Act provides for FY87 and beyond, to apply the full FY86 sequester to those accounts, the results would have been a significant cut in military personnel end strengh

If sequestration is required for FY87 it is very possible that problems will surface on specific reductions made that could be predicted at the time the sequestering plan was developed. It must be recognized that large deficit reductions—like reported in the Feb. 86

CBO report to the House and Senate of $37 billion—cannot continually be made against Army resources, with the exception that the Army will still be able to deliver the program levels as initially intended by Congress. Thus, it is essential that the Congress continue to entertain flexibilities in the future Gramm-Rudman-Hollings (GRH) deficit reductions actions. In any future sequestration, it would be more realistic if the Army were to have flexibilities, such as:

The continued exemption for Military Personnel;

A general flexibility in lieu of specific Program, Project, or Activity (PPA);

The elimination of restrictions on Congressional adds; and

A uniform rate reduction applied to total budget resources instead of to each fiscal years PPA's.

It is difficult to predict how reprogramming practices might be affected by the FY86 sequestration. Should Congress fail to provide flexibility for tradeoffs among PPAs, the choice, would be between more reprogramming or appreciably reduced efficiency of program execution. Even if the choice is reprogramming, current reprogramming rules are too restrictive for multiyear appropriations and need streamlined in the light of GRH. For example, rules prohibit reprogramming actions which result in increases in quantity or enlargement of scope after first year of availability for both authorization and non-authorization items. We recommend considering the impact of GRH on prior year programs. Rules should be revised to permit increases in quantity and changes in scope up to the below threshold reprogramming limit. In addition, Congress should consider streamlining the approval process so that funds may be processed more timely.

Navy Answer. Mr. Helm described, in his statement, several types of flexibility should sequestrations be required in the future. These include the continued exemption for Military Personnel, a general flexibility for defense in lieu of specific PPAs, the elimination of restrictions on Congressional adds, and the elimination of the "net loss" caveat regarding contract terminations.

Failure to provide an exemption for military personnel would result in a disastrous reduction in force structure, with additional reductions in the benefit packages we rely on to support recruiting and retention goals. Additionally, the definition of PPAs at the line item level will likely make an execution very difficult in procurement, research and development, and construction. For example, unless we are able to recoup savings totalling 4.9 percent for each ship in the FY 1986 budget, it will be impossible to build 95.1 percent of every ship, while it might be possible to achieve an overall savings within the total appropriation of 4.9 percent.

Reprogramming practices are essential to execution of the budget; they allow us to adjust to real world changes during execution. It is essential that we retain at least some reprogramming ability as now exists, but if it appears that reductions under Gramm-Rudman will occur in the future, then the entire reprogramming process should be reexamined, including the threshold levels.

Air Force Answer. The Air Force believes that the need for flexibility arises directly from the definition of PPA at a low level of detail. We believe that Gramm-Rudman-Hollings should be applied at the appropriation account level. It is our view that even with this broader pre-sequestration flexibility, we can preserve key Congressional and Administration program priorities.

In addition we recommend that, whether or not PPA is defined at account level, you consider an increase, possibly a doubling, of reprograming thresholds. We would still have to come back to the Congress if special interest for submission to you of reprograming requests come into play. The key, however, is that some additional below threshold flexibility would enable the Services to solve a lot of problems without extended delays. Further, since we are using first year outlay rates in our Gramm-Rudman-Hollings calculations for both prior year unobligated balances and reductions to new budget authority, the Air Force recommends that we be allowed to adjust reductions across program years after the sequestration order. This program year flexibility would allow us to correct the problems which arise because the reduction amounts are calculated using accounting data which is not real-time. We are finding instances where we must make reductions to budget lines in program years where there are no longer sufficient unobligated funds. We are then forced to look at a contract modification which could be avoided altogether if we could absorb the reduction within the PPA in a different program year.

DEFINITION OF PROGRAM, PROJECT, OR ACTIVITY (PPA)

Question. The Gramm-Rudman-Hollings Act specifically directs the Appropriations Committees of the House and Senate to consult with each other and then report to their respective Houses a definition of program, project, or activity for purposes of FY 1986 sequestration. The definition of the PPA for FY 1986 is vital because it has the effect of protecting an item from more than twice the uniform percentage reduction under the sequestration flexibility delegated to the President.

The materials the DOD prepared for the FY 1986 sequestration incorporated the so-called "R-1" and "P-1" line item designations specified by the Appropriations Committees.

Why did they not also reflect that part of the definition which says "the most specific level of budget items identified in the Department of Defense Appropriations Act, 1986 . . . the conference report and the accompanying joint explanatory statement of the managers of the committee of conference on the Further Continuing Resolution, 1986 . . ."

OSD Answer. The conference report directs that the term "program, project, and activity" shall include the most specific level of budget items identified in the Defense Appropriations Act, conference report, and the P-1 and R-1 budget justification documents as modified by congressional action. Of the specified documents, the Department as well as OMB considered the P-1/R-1 level to be the most specific level since it is the basic element level for all of our budget and accounting reporting systems.

Army Answer. The Army did not define PPA. DOD worked with the Appropriations Committees to define PPAs for all Department of Defense accounts.

Navy Answer. The Department of the Navy followed guidance provided by the Office of the Secretary of Defense which interpreted the language in the CRA regarding definition of program, project, or activity.

Air Force Answer. We can only answer this question from the Air Force perspective. As you know, DOD developed a uniform interpretation of PPA and the Services applied Gramm-Rudman-Hollings consistent with that understanding. There is a critical advantage to use of P-1 and R-1 in the Gramm-Rudman-Hollings process. These are established definitions which are built into our automated budgeting and accounting data bases. There are hundreds of P-1 and R-1 line items in the Air Force, but we can manage the mechanics of the reduction process because these are existing data elements. To develop something new for each round of Gramm-Rudman-Hollings, with the resulting research requirement, the inevitable issues of interpretation, and the need to somehow incorporate the new elements in the automated structures needed to implement the reduction process, would consume time which the Gramm-Rudman-Hollings automatic reduction process does not provide. The definition and interpretation of PPA should be relatively consistent (or less restrictive) from one year to the next.

Question. The Gramm-Rudman-Hollings Act also provides that "programs, projects and activities" in sequestration orders in future years follow the designations included in Appropriations bills and reports.

Is it your intention to follow exactly the Appropriations designations in the preparation of materials if sequestration is necessary in FY 1987?

OSD Answer. Sec. 252(a)(1)(B)(i) of the Act, which would be applicable to an FY 1987 sequester, provides that funds shall be sequestered, "for funds provided in annual appropriations Acts, from each affected program, project, and activity (as set forth in the most recently enacted applicable appropriations Acts and accompanying committee reports for the program, project, or activity involved, including joint resolutions providing continuing appropriations and committee reports accompanying Acts referred to in such resolutions). . . ." If sequestration is necessary in FY 1987, we will certainly comply with this provision of the act.

Army Answer. Yes. However, the Army is studying its budget structure for future modifications. Currently, the Army's budget comprises approximately 1,400 line items. This delineation is the product of various requirements accumulated over many years. To use this acquired structure for Gramm-Rudman-Hollings sequestration is not prudent management. A case in point is made using the Aircraft Procurement, Army appropriation. A Gramm-Rudman-Hollings reduction would result in an equal percentage cut to the Aircraft; Modification of Aircraft; Spares and Repair Parts; and Support equipment and facilities line item. All these lines are not currently at the same stage of their acquisition objective. Forcing mandatory cuts could result in deteriorating an already bad situation.

The Army's study is attempting to develop a structure that will provide a degree of flexibility that is neither too tight nor too loose yet had enough management latitude to make meaningful decisions as to Gramm-Rudman-Hollings cuts.

Navy Answer. We will follow the guidance of the Office of the Secretary of Defense just as we do for all other budget submission requirements. Based on past experience, I am confident that the OSD will comply with provisions of the Act.

Air Force Answer. Again from the Air Force perspective, we assume that, as in FY 1986, OSD will develop a uniform interpretation of PPA and we will, of course, apply the reductions consistent with that interpretation.

REDUCTIONS THROUGH TERMINATION OR MODIFICATION OF EXISTING CONTRACTS

Question. The President has the authority to propose savings through modification or termination of existing contracts. These savings must exceed penalty costs build into the contract, cannot violate a legal obligation of the Federal Government, and must be verified by the Comptroller General.

The termination or modification of an existing contract cannot violate a legal obligation of the Federal Government. What does "legal obligation of the Federal Government"mean to you in this context?

Answer. Presumably, this question relates to the provisions of Sec. 256(1), which exempt contracts from reduction if the reduction would violate the legal obligations of the Government. This provision is unclear. Most government contracts contain provisions that permit modification for the convenience of the Government. Therefore, it would be rare that reduction would violate the "legal obligations of the Government" under the contract. Perhaps that phrase was intended to apply to obligations to provide funding wholly apart from the obligations under the contract, such as a legal requirement to incur certain costs in the area of environmental restoration. This would be unusual in the context of a Defense contract and, therefore, we do not anticipate that this limitation would have any effect on the Department.

Army Answer. We agree with the Office of Secretary of Defense interpretation of what constitutes legal obligations.

Navy Answer. The Federal Government, as is any organization, is legally required to fulfill the terms of any contract to which it is a party. Many procurement contracts obligate the government to pay a termination liability in the event of early cancellation of the contract. Where this is the case, the federal government is obligated to pay the termination costs.

Air Force Answer. A contract itself constitutes a "legal obligation of the Federal Government." If a contract is modified or terminated, the amount of the new or resultant obligation would depend on the circumstances of each case: the original terms of the contract, the contracting officer's latitude to make adjustments and settle disputes, and any claims the contractor may be entitled to make. For example, the contractor may be entitled to recover some nonrecurring costs if a production rate is reduced or a contract terminated for convenience. In short, the "legal obligation of the Federal Government" is the amount the Government must pay under

(1) business as usual, (2) modification, or (3) termination—depending on the terms of each contract.

Question. In addition to "penalty costs" built into a contract, wouldn't modification or termination of existing contracts lead to higher unit costs if contracts later had to be renegotiated?

Would this be a serious problem inhibiting the use of this authority?

Are there other hidden costs that would be incurred through the use of this authority, What are they?

OSD Answer. We think it is quite likely, as a general rule, that termination or modification of existing contracts would lead to higher unit costs if the contract in question later had to be renegotiated in order to provide sufficient quantities of the system or equipment involved. It is also evident that a prospect of incurring higher unit costs would create a real inhibition against the use of this authority. Of the other, hidden costs that would be incurred as a result of contract modification or termination, the most obvious is the administrative cost of renegotiating contracts. Moreover, renegotiation might permit the contractor to reopen issues which had been resolved prior to entering into the original contract; this problem could result in additional costs to the government.

Army Answer. Past experience has shown us that in those cases where contracts have been either terminated or delayed and later renegotiated at generally the same level of quantities, the result has normally been higher unit costs. Because of this expectation, it is generally considered to be not cost effective to use this approach to generate real savings in the long run. The price associated with doing business now versus doing business in the future inhibits the use of this authority. Increased administrative costs and costs associated with reopening issues previously resolved are two major examples of hidden costs related to termination or modification of existing contracts. Increased overhead, increased plant maintenance costs, and costs driven by contractor personnel turbulence may also result from an on again, off again contracting environment.

Navy Answer. It is impossible to predict precisely the outcome of any contract that must be renegotiated. This uncertainty about the future is one of the prices of termination or modification of existing contracts. However, it should be assumed that anytime a schedule is slipped, unit costs will rise.

Hidden costs include repayment of the non-recurring costs on the contract and increased administrative personnel costs at all levels of the Federal Government. In addition, massive termination would have a negative impact on the economy due to increased unemployment and reduced tax revenues in the Defense industrial sector.

Air Force Answer. The effect of increased unit costs upon renegotiation of a contract would multiply the program impact of any Gramm-Rudman-Hollings reductions. Higher unit costs would erode the buying power of the remaining obligational authority remaining after the reductions. How serious this problem is would depend on the size of the increase in the unit costs on the contracts involved.

If contracts had to be renegotiated, the unit costs would increase for several reasons. Two primary reasons are changes to production rate schedules and potential increases for inflation as effort is moved to later years. Under many circumstances, the Air Force would prefer not to alter existing agreements that were reached in good faith by both parties. As a result, if it were necessary to take this approach, it would only be pursued where other reasonable alternatives were studied and found to be unacceptably limiting. If contracts had to be modified or terminated, there are other costs besides potential termination liabilities or increased unit costs. The most immediate one would be loss of revenue to the Federal Government because of the decreased business base to the company involved. Depending on the scope of changes involved, this could have an adverse impact on deficit reduction efforts. Other types of costs possible include the costs of closing government plants, equipment storage, expenses for the sale of residual assets, losses for terminating companion contract efforts for plant improvements and manufacturing technology, etc.

Question. The selection of a contract and the program, project or activity involved must be fully explained under the terms of Gramm-Rudman-Hollings. Under what circumstances would you propose to achieve savings by modifying or terminating a contract?

OSD Answer. The modification or termination of a contract to fulfill defense requirements is a very disruptive and costly measure, which the Department of Defense is extremely reluctant to undertake. As a general rule, it is probably the least desirable method of achieving cost savings. As a result, the Department does not anticipate the use of this provision of the Deficit Control Act of 1985.

Army Answer. Modifying or terminating a contract to achieve savings would be considered only if the savings could not be achieved through other means. For example, we would first consider deferring planned procurements or reducing quantities on solicitations that have not yet been negotiated; not exercising existing options for additional quantities; or continuing to work with contractors to reduce costs if using cost reimbursement type contracts.

Only when using the methods mentioned above have not resulted in achieving the required savings would we begin to use contract modifications and terminations. We would then use them only to the extent necessary to achieve the required savings after considering the termination costs involved.

Navy Answer. We could not decide to terminate or modify existing contracts without knowing the size of the reductions or the total environment in which they would be taken. The only circumstance which would probably cause us to consider terminating a contract would be a reduction under Gramm-Rudman that is sufficiently large enough to cause cancellation of a program in the budget year. If we were to cancel a program in the budget year, then we would look at the desirability of terminating any existing contracts on the same program.

Air Force Answer. From the Air Force perspective, an environment of extraordinarily large reductions with no flexibility could result in a major reordering of total priorities to deal with these circumstances. At that point, the Air Force would have to reexamine all programs. It is possible that contract modifications or termination might be necessary in order to provide a balanced approach to national defense priorities.

Question. This authority was not exercised at all in FY 1986. Why?

OSD Answer. As is indicated above, contract termination or modification is a very disruptive and costly way to reduce outlays. To modifiy or terminate a contract to fulfill essential defense requirements poses the risk not only of delaying the availability of needed equipment, but also of incurring additional and unanticipated costs when those requirements are later met. These are reasons why this authority was not used in the FY 1986 sequester.

Army Answer. As mentioned above, there are other methods available to the Army prior to modifying or terminating existing contracts. Because contract modification or termination is time consuming, costly in both the near and long term, and disruptive to both the government and industry, modification or termination will be used only when absolutely necessary.

Navy Answer. Our policy was to take the reductions in a way that would cause the least disruption to the planned program as possible. It is usually very disruptive to terminate or modify an existing contract. Furthermore, the purpose of the reduction to the FY 1986 obligational authority was to reduce outlays in FY 1986. In many cases the termination of an existing contract, while reducing outlays over the planned life of the contract, might actually increase outlays for the fiscal year in question. For the most part, there was insufficient time to perform the necessary analysis on the impact of a contract termination.

Air Force Answer. Because of the short period of time between the time the law was signed (12 Dec 85) and the deadline for identifying contracts to be terminated or modified (15 Jan 86), the Air Force was unable to analyze in detail the hundreds of contracts necessary to arrive at decisions. Therefore, the Air Force chose to balance program schedule and funding without resorting to cancelling individual contracts at the outset. As we proceed through FY 1986, the Air Force believes that through reprograming flexibility—a normal part of every budget year—we can avoid arbitrarily concelling contracts.

Question. Do you anticipate that you would use this authority if a FY 1987 sequestration were required? If so, to what extent?

To what degree do you think you could use this authority without causing disruptive uncertainty in the Defense industrial sector?

OSD Answer. The Department of Defense does not anticipate using the contract modification/termination authority in the event that a sequester is required in FY 1987, for the reasons outlined above. As you imply, the use of this authority would be likely to cause considerable uncertainty within defense industry. Such uncertainty could well inhibit some potential contractors from bidding on defense contracts. The effects of the uncertainty inherent in this measure present an additional reason for avoiding its use in any future sequester required under the Deficit Control Act.

Army Answer. The Department of the Army does not currently anticipate using the contract modification or termination authority in the event a sequester is required in FY 1987. The Army intends to use every method possible, as discussed earlier, to preclude having to use contract modifications or terminations.

The disruptive uncertainty that could be caused in the defense industrial sector would be significant with an impact on large prime contractors, their subcontractors and small contractors doing business at all levels throughout the Army. Because of the potential effects of the uncertainty, we will continue to explore and use every legal means possible to reduce or eliminate the impact of sequestration.

Navy Answer. We can not anticipate whether this authority would be used until we know the scope of the problem.

Termination or modification of existing contracts, negotiated in good faith, by its very nature causes disruptive uncertainty. The degree of uncertainty would depend on the size and number of contracts terminated.

Air Force Answer. The President's Budget for FY 1987 conforms to the provisions of the Gramm-Rudman-Hollings legislation. Assuming the Congress will either pass the President's Budget or an appropriation bill which also complies with the deficit ceiling for FY 1987, then sequestration will not be necessary. Therefore, it is inappropriate for the Air Force to speculate on the likelihood for uncertainty in the Defense Industrial Sector.

PROGRAM ELIMINATION

Question. Sec. 252(d) of the Gramm-Rudman-Hollings Act provides that "No action taken by the President under subsection (a) or (b) of this section (Initial and Final Sequestration Orders) shall have the effect of eliminating any program, project, or activity of the Federal Government."

Please describe the conditions that would exist when you would make the determination that a PPA would "in effect" be eliminated through operation of the uniform sequestration reduction?

OSD Answer. The Act provides that any sequester required in FY 1987 or subsequent years be applied in a strictly uniform, across-the-board, manner. No exemptions or tradeoffs are permitted, unlike the FY 1986 sequester. We can foresee no conditions under which such uniform reductions could result in the elimination of a program, project or activity.

Army Answer. The Gramm-Rudman-Hollings Act specifies that any sequestration for the FY87 and beyond be applied in a strictly uniform, across-the-board, manner. No exemptions or tradeoffs are permitted, unlike the FY86 sequester. The Army can foresee no conditions under which such uniform reductions could result in the elimination of a program, project, or activity. However, a uniform rate reduction will increase unit and operating costs resulting in plant and facilities being run at uneconomical rates. As a general rule, it is probably the least desirable method of achieving cost savings.

Navy Answer. The most likely condition is where only one unit of a given program is budgeted, i.e., the one unit makes up the entire PPA. It is possible in this situation that the reduction would be sustantial enough that it could not be absorbed within the PPA, thus causing cancellation of the unit. This situation occurs most often in shipbuilding and military construction. Another condition that could occur is if the reduction to a program with several units were large enough, the remaining units could be too few to produce in an economic sense or would be a marginal military value.

Air Force Answer. This is a difficult question to speculate on because of the many facets that make up a program or PPA. Most PPAs include numerous contracts and efforts that span several years. As a result, the Air Force would first attempt to balance reductions for sequestration against schedules and funds. However, it is possible that factors could combine to "in effect" eliminate a PPA. For instance, if the sequestration percentage were extraordinarily high and the Air Force had no flexibility among PPAs, as is currently the case of FY 1987 and beyond, reductions could have the effect of dictating schedule shifts of such magnitude as to preclude program progress. Further, we could be unable to enter into contract renegotiations in good faith because of inadequate funds remaining. Finally, the funds remaining in the program may minimally exceed termination costs if major portions of a PPA were affected by the need for contract renegotiations. In each of these instances, we would consider that the PPA was essentially unexecutable.

[CLERK'S NOTE. End of questions submitted for the record.]

TUESDAY, MARCH 4, 1986.

ASSISTANCE FOR NICARAGUAN DEMOCRATIC RESISTANCE

WITNESSES

DEPARTMENT OF STATE

ELLIOTT ABRAMS, ASSISTANT SECRETARY OF STATE FOR INTERAMERICAN AFFAIRS

DEPARTMENT OF DEFENSE

CLYDE O. GLAISTER, DEPUTY ASSISTANT SECRETARY OF DEFENSE (PROGRAM/BUDGET)

CENTRAL INTELLIGENCE AGENCY

JOHN HELGERSON, ASSOCIATE DEPUTY DIRECTOR FOR INTELLIGENCE

INTRODUCTION

Mr. CHAPPELL. This morning the committee will hold a hearing on the Administration's proposal to transfer $100 million from the Department of Defense and make those funds available for assistance to the Nicaraguan democratic resistance.

The committee will hear testimony from officials of the State Department, the Defense Department, and the Central Intelligence Agency.

The committee is interested in all aspects of this important issue including the following:

What is the current political and military status of the Contras in Nicaragua?

What is the situation on the diplomatic front regarding a potential settlement in Nicaragua?

Specifically, what would the $100 million be expended on if it was approved?

What is the status of the program, funded in last year's supplemental bill, to provide humanitarian aid to the Contras?

What level of aid is the Nicaraguan democratic resistance receiving other than that provided in the fiscal year 1985 supplemental bill?

What DOD programs would be affected by the transfer of the $100 million?

After the testimony of the State Department and the Defense Department, the hearing will change to "special access" for testimony from the CIA. Those without the proper clearances will leave at that time.

Before we proceed with the testimony of the witnesses, I would like to insert in the record at this point a package of documents concerning this request.

[The material follows:]

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 25, 1986

FACT SHEET

SUMMARY OF PRESIDENT'S REQUEST TO CONGRESS ON AID TO THE NICARAGUAN DEMOCRATIC RESISTANCE

Today the President is transmitting a message to the Congress which asks that legislation be passed providing the President with additional authorities to support the Nicaraguan democratic resistance. His proposal asks for these authorities and the use of funds already in the budget for the purpose of improving the chances of a democratic outcome in Nicaragua.

The President noted that he continues to seek a negotiated solution to the problems which have been created by the communist regime in Managua. The President's message reaffirms his offer to resume bilateral talks with the Sandinistas, simultaneously with the beginning of a church-mediated dialogue between the United Nicaraguan Opposition (UNO) and the Sandinistas.

The President's message urges congressional approval based on the need to defend vital U.S. national security interests and to prevent the consolidation of a Soviet-supported communist client state on the mainland of this hemisphere. The message includes reference to the massive arsenal with which the Sandinistas and Cubans are intimidating and subverting Nicaragua's democratic neighbors. It asks the Congress to provide the support needed by the Nicaraguan democratic resistance, which has continued its struggle, despite a lack of resources.

Over the past weeks, the Administration has carefully evaluated what is needed to assist the resistance to be an effective element of pressure on the Sandinistas. The Congress was widely consulted and a proposal has been developed that meets the needs of the resistance and is, at the same time, responsive to congressional concerns.

-- $100 million would be made available by transfer from the FY 1986 Department of Defense Appropriations Act for the Nicaraguan democratic resistance. Once approved by the Congress, 25% would become available immediately, with an additional 15% released every 90 days through the end of FY 1987, as reports are submitted to the Congress.

-- $30 million of the total $100 million package would be reserved for humanitarian assistance, administered by the existing Nicaraguan Humanitarian Assistance Office (NHAO) (including $3 million specifically earmarked for human rights programs and activities). The President would be free to use the remaining $70 million for any kind of assistance he deems appropriate, using whatever agencies he desires, subject to normal procedures for congressional oversight.

-- In the event of a peaceful resolution in Central America, any remaining balance of the $100 million could be used (through the end of FY 1987) for relief, rehabilitation, and reconstruction purposes, including in Nicaragua.

-- All current statutory conditions on involvement by intelligence agencies will be deemed satisfied by congressional approval of the President's request. This would allow the President to use the CIA or DOD to carry out the program.

-- Finally, approval of the request would constitute acceptance by the Congress of the following undertakings by the President:

  - U.S. policy toward Nicaragua will be based on Nicaraguan responsiveness to United States Government concerns about Soviet/Cuban ties, military buildup, support for subversion, internal repression and refusal to negotiate.

  - The United States will address these concerns through economic, political, and diplomatic measures, as well as support for the resistance. In particular:

    we will engage in simultaneous talks with Nicaragua, if Nicaragua will also engage in internal dialogue as proposed by UNO (the UNO proposal includes a ceasefire and lifting of the state of emergency);

    we will respond positively to other steps by the Government of Nicaragua toward meeting our concerns.

  - Any easing of U.S. pressure on Nicaragua will be implemented after consultation with the Congress by reference to observable Nicaraguan conduct (e.g., freedom of press, arms deliveries, foreign military presence, respect for ceasefire).

  - The U.S. actions shall be consistent with our right to defend ourselves and assist our allies, with a view to achieving a comprehensive, verifiable Contadora agreement and democratic reconciliation in Nicaragua, without the use of force by the United States.

  - The President will report to the Congress every 90 days on diplomatic efforts, human rights, and the use of appropriated funds (same as current reporting requirement).

-- Under the expedited procedures that the Congress has provided, the President is entitled to a vote on a resolution expressing approval of this request. A positive vote is essential to protect our strategic interests, preserve opportunities for diplomacy, and assure that the progress made in El Salvador, Honduras, and Guatemala will not be reversed.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 25, 1986

TO THE CONGRESS OF THE UNITED STATES:

When the Congress approved humanitarian assistance for the Nicaraguan democratic resistance last year, it assured the survival of those fighting for democracy in Nicaragua. However, this assistance has not been sufficient to bring about changes in the policies of the communist Government of Nicaragua that would make possible a peaceful resolution of the conflict in Central America and end Nicaragua's aggression against our allies there.

Determinations

Negotiations based on the Contadora Document of Objectives of September 9, 1983, have failed to produce an agreement, and other trade and economic measures have failed to resolve the conflict. At the same time, the legislation for humanitarian assistance is about to expire. If no further action is taken, it is clear that the Nicaraguan communists will steadily intensify their efforts to crush all opposition to their tyranny, consolidating their ability to use Nicaragua, in concert with their Soviet-block patrons, as a base for further intimidating the democratic nations of Central America and spreading subversion and terrorism in our hemisphere.

In these circumstances, the laws providing for humanitarian assistance to the Nicaraguan democratic resistance permit me to request authority to provide additional assistance, and specify expedited procedures for action by the Congress on my request. I am transmitting herewith a formal request for such additional assistance. As required by law, I have consulted with the Congress in formulating this request.

Why Negotiations and Other Measures Have Failed

In reports that I transmitted to the Congress in November 1985 and February 1986, I described the continued efforts by the United States to promote a negotiated settlement in Central America and in Nicaragua based on the Contadora Document of Objectives. Our persistent efforts to achieve a peaceful solution have failed to resolve the conflict because Nicaragua has continued to reject meaningful negotiations. Communist attempts to circumvent and subvert Contadora, apparent from the beginning of the negotiating process, have left a clear trail of lost opportunities for peaceful reconciliation. In most recent months, Nicaragua has repeatedly frustrated negotiations aimed at producing a final, comprehensive Contadora treaty.

Recent Contadora meetings to discuss a comprehensive, verifiable regional agreement have been inconclusive largely due to Nicaraguan intransigence on key issues. Following two rounds of talks in October, on November 11, 1985, Nicaragua made public a letter from President Ortega to the Contadora Group and Support Group governments setting forth objections to the September 12, 1985, draft agreement tabled by the Contadora Group governments. Nicaragua argued that it could not assume the obligations of a Contadora agreement unless it reached a prior accommodation with the United States.

On December 3, President Ortega formally requested a suspension in Contadora negotiations until May 1986, that is until after the governments to be elected in Costa Rica, Honduras, and Guatemala will have been installed. Costa Rica, Honduras, and Guatemala, however, joined 25 other OAS member states in voting for a resolution at the OAS General Assembly in Cartagena that urged continuation of the Contadora negotiations. Of all OAS members, only one member -- Nicaragua -- voted against that resolution. Subsequently, only Nicaragua refused to resume Contadora talks -- a major reason why the United Nations General Assembly failed to achieve consensus on a resolution of support for the Contadora process.

On January 12, the Foreign Ministers of the Contadora Group and Support Group, meeting at Caraballeda, Venezuela, issued a joint statement intended to revitalize the process. The Foreign Ministers of the five Central American states, including Nicaragua, signed the "Declaration of Guatemala" on January 15, endorsing the Caraballeda message. Afterwards, the Government of Nicaragua issued a press communique which, although claiming "total adherence" to the Caraballeda message, characterized the various actions suggested in the Caraballeda message as prerequisites to resumption of Contadora negotiations. This communique also reaffirmed the Nicaraguan position of November 11 objecting to the Contadora draft agreement.

On February 5, President Ortega repeated this position in his speech to the Third Cuban Communist Party Congress in Havana noting that "the peace document that the Contadora Group submitted in September 1985 is unacceptable to Nicaragua."

On February 10, Secretary of State Shultz met with the Foreign Ministers of the Contadora Group and Support Group. The Secretary welcomed the good offices of the two Contadora groups to promote national reconciliation as expressed in the Caraballeda message, and offered to resume bilateral talks with Nicaragua simultaneously with the beginning of Sandinista dialogue with the democratic resistance. Secretary Shultz also informed the Foreign Ministers that the United States was prepared to take further steps in response to changes in Nicaraguan behavior on the four key issues of concern -- support of subversion, the Cuban/Soviet presence, the military buildup, and internal repression. He pointed out that a dialogue and ceasefire would mean that cessation of the application of force and the process of national reconciliation would go forward at the same time. My Special Envoy, Ambassador Harry Shlaudeman, began consultation with the Contadora and Support Group governments the week of February 16 on this initiative.

Meanwhile, the Sandinistas have rejected a February 6 proposal from opposition political parties in Nicaragua for suspension of hostilities, an effective general amnesty law for reconciliation of all Nicaraguans, a repeal of the state of emergency, an agreement for the establishment and observance of a new electoral process, effective fulfillment of Nicaragua's commitments for democratization and international assistance in the implementation of these demands. Also, another Contadora negotiating session held February 14-15 was inconclusive because of continued Nicaraguan refusal to address the remaining issues to be resolved in the current Contadora draft agreement.

Description of Request

The request transmitted herewith asks your approval for the transfer of $100,000,000 from funds already appropriated for the Department of Defense so that those funds would also be available for assistance to the Nicaraguan democratic resistance. I am requesting this transfer authority, in lieu of a supplemental appropriation, because I regard this request as a matter of high priority for the national security of the United States. Including a proposal for additional funds in this request would have diverted attention from the basic national security issues here involved. However, the resulting reduction in the funds available for the Department of Defense, if not remedied, will inevitably impair ongoing efforts to restore and maintain the readiness of the armed forces. This impairment in defense readiness will be addressed separately.

The $100,000,000 to be made available for assistance to the Nicaraguan democratic resistance would include funds that have been appropriated to remain available for obligation beyond September 30, 1986. Obligations will be made on an incremental basis, with 25 percent available when the request is approved and an additional 15 percent to become available at 90-day intervals as reports are provided to the Congress on actions to achieve a resolution of the conflict in Central America. However, no obligations may be incurred after September 30, 1987.

Of the $100,000,000, $30,000,000 will be for a program of humanitarian assistance administered by the present Nicaraguan Humanitarian Assistance Office, including $3,000,000 exclusively for strengthening the observance and advancement of human rights. This emphasis on human rights reflects a determination that human rights must be respected. As in our support for democracy elsewhere, human rights training and assistance can be expected to achieve significant positive results.

Should a peaceful settlement of the conflict in Central America be achieved during the period these funds remain available, the remaining funds could then be used for assistance to Central American countries, including Nicaragua, for relief, rehabilitation, and reconstruction.

Approval of this request will permit me to use any department or agency in the Executive Branch, including agencies involved in intelligence activities, in carrying out programs and activities to assist the Nicaraguan democratic resistance. The statutory requirements for congressional approval of the use of such agencies, as well as statutes requiring prior authorization for the use of appropriated funds will be satisfied by the approval of my request.

Finally, the request contains a series of undertakings by me, which I am asking the Congress to accept. These undertakings, which were developed in consultations with the Congress, are intended to assure that a clear and explicit understanding exists between the Executive and Legislative Branches as to the purposes of the requested assistance to the Nicaraguan democratic resistance and United States objectives in Central America.

In particular, I am undertaking in this request:

-- That United States policy toward Nicaragua will be based on Nicaragua's responsiveness to our well-known concerns about the Government of Nicaragua's close military and security ties to Cuba and the Soviet Union, its military buildup, its unlawful support for subversion and terrorism, its internal repression, and its refusal to negotiate in good faith with its neighbors or its own people;

-- That, in addition to support for the democratic resistance, the United States will rely on economic, political and diplomatic measures to address these concerns. In this regard, I am publicly affirming two offers that I have previously made through diplomatic channels in an effort to obtain a peaceful resolution of the conflict. First, we will engage in formal bilateral discussions with the Nicaraguan Government, to commence simultaneously with a church-mediated national dialogue in Nicaragua, as has been proposed by the United Nicaraguan Opposition. Second, we will take other positive actions in response to Nicaraguan steps toward meeting our concerns.

In determining how to implement these offers, I will consult with the Congress and will be guided by the observable behavior of the Government of Nicaragua. We will not be satisfied with expressions of intent. But we will respond to changes of behavior in areas such as freedom of the press and religion, reductions of foreign arms and military personnel, respect for a cease-fire, and cessation of support for insurgents and terrorists.

My request affirms that our actions are consistent with our right to defend ourselves and assist our allies, and are directed toward achieving peace based on the Contadora Document of Objectives and a democratic reconciliation in Nicaragua, all without the use of force by the United States. I do not intend to introduce the armed forces of the United States into combat against the Government of Nicaragua, and I affirm that I will not regard approval of my request for assistance as authorizing any such action.

The final undertaking in this request responds to the desire of the Congress to be kept informed about efforts to achieve resolution of the conflict in Central America. I am undertaking to report every ninety days on progress toward a negotiated settlement, as well as on the disbursement of assistance funds and on human rights issues. The continued availability of assistance funds will be contingent upon the receipt by the Congress of these periodic reports.

The Need For This Assistance

Since the beginning of my first Administration, there has been no foreign policy issue more directly affecting United States national interests than the conflict in Central America, for this conflict challenges not only our strategic position but the very principles upon which this Nation is founded. We can be justifiably proud of progress in the region to alleviate and ultimately eliminate the causes of that conflict. With strong support from the United States, freedom and democracy, the fundamental pillars of peace, have made dramatic gains. Guatemala, Honduras, and El Salvador have held free and open elections. Costa Rica continues its tradition as a vigorous democratic example. United States economic, political, and military support have strengthened the moderate center in Central America and reversed the tragic polarization on the left and right that threatened to engulf the region in endless violence. As a result, the only president in Central America who wears a military uniform today is Daniel Ortega of Nicaragua. He presides over a repressive regime, armed to the teeth by the Soviets and Cubans, which is the most immediate threat to the progress of its neighbors.

Few now question that the rulers of Nicaragua are deeply committed communists, determined to consolidate their totalitarian communist state. Their long, documented record of brutal repression leaves no room for doubt. Nor can there be any dispute that they seek to export their ideology through terrorism and subversion to neighboring countries. Their neighbors' success in offering democracy as a viable alternative for the people of Central America is a major threat to the system they advocate. The Sandinistas have been constrained principally because they have not yet crushed opposition to their regime at home. The struggle of the Nicaraguan democratic resistance for democracy in their own homeland has provided a shield for democratic progress in other Central American countries. But the Sandinistas, with massive Soviet and Cuban military assistance, have clearly made the elimination of these freedom fighters their number one priority. If they achieve that goal, there will be no remaining obstacle to their efforts to destabilize neighboring states.

Despite this threat to peace, we do not accept that conflagration is inevitable in Central America. The path to peace is clear. The origin of the conflict in Nicaragua is the revolt of the Nicaraguan people themselves against tyranny. A church-mediated dialogue, serious negotiations between the Sandinistas and the external and internal opposition, including the democratic resistance, is the place to begin. The United States strongly supports such negotiations, and we welcome the efforts of the Latin American nations of the Contadora Group and Support Group to promote national reconciliation talks to resolve the Nicaraguan conflict. We will steadfastly support the Contadora process in its efforts to find a solution in Central America that will be the basis for lasting peace. We will also continue to look for flexibility in the Nicaraguan position and are prepared to respond with appropriate measures to encourage them to come to terms with their own people in a democratic framework.

At the same time, we can entertain no illusions that the Sandinistas will enter negotiations on steps to allow legitimate democratic dissent unless democratic forces in Nicaragua can credibly and forcefully assert their right to a voice in Nicaragua's future. The Sandinistas' record of repression of democratic opposition groups leaves little hope that they will willingly follow such a course. They will never embrace open, democratic norms unless confronted with undeniable demands from steadily growing numbers of Nicaraguans prepared to fight for liberty and for their right to participate in their country's political life.

Our experience with the Sandinistas over six and a half years points unmistakably to the need to accompany diplomatic policy with substantial pressure focused on the same objectives. Without power, diplomacy lacks leverage. The Sandinistas will not take meaningful steps toward national reconciliation until they realize that opposition to the consolidation of a Marxist-Leninist regime is too strong to be repressed. Approval of this request will enable the United States to be in a position to provide assistance that permits the resistance to conduct sustained operations in Nicaragua and expand their area of operations. The resistance will be able to incorporate more of the thousands of volunteers waiting to join their forces but who cannot be accepted for lack of supplies. They will be able to establish a stronger presence among a larger segment of the Nicaraguan population, thus increasing the pressure on the Sandinistas to enter into dialogue with all opposition elements, and to negotiate seriously in the Contadora process.

The cause of the United States in Nicaragua, as in the rest of Central America, is the cause of freedom and ultimately, our own national security.

The Soviet Union and its satellites understand the great stakes in Nicaragua. The Soviets have already made their decision to support the Sandinistas. Cuba's Castro has already made his decision to support the Sandinistas. Libya's Qadhafi has already made his decision to support the Sandinistas saying, we support them, "...because they are fighting America at its doorstep. Nicaragua means a great thing; it means fighting America near its borders."

Congress must act decisively to prevent an outcome deeply injurious to the security of our Nation.

If the enemies of democracy thousands of miles away understand the strategic importance of Nicaragua, understand that Nicaragua offers the possibility of destabilizing all Central America, of sending a tidal wave of refugees streaming toward our southern border, and of tying down the United States and weakening our ability to meet our commitments overseas, then we Americans must understand that Nicaragua is a foreign policy question of supreme importance which goes to the heart of our country's freedom and future. With its vote, Congress will make its decision.

Those fighting for freedom in Nicaragua deserve and desperately need our help. The humanitarian assistance approved by the Congress in 1985 has proven insufficient. Cuban and Soviet military aid in the form of training and sophisticated hardware have taken their toll. If the Nicaraguan democratic resistance is to continue its struggle, and if peace, democracy, and security in this hemisphere are to be preserved, the United States must provide what is necessary to carry on the fight. If we fail to help friends in need now, then the price we will pay later will be much higher.

Your approval of the request I am transmitting to you will provide the necessary help. I urge the prompt enactment of a joint resolution expressing that approval.

RONALD REAGAN

THE WHITE HOUSE,

February 25, 1986.

Request for Additional Authority and Assistance for the Nicaraguan Democratic Resistance

Pursuant to the provisions of section 722(p) of the International Security and Development Cooperation Act of 1985 (P.L. 99-83) and section 106(a) of chapter V of the Supplemental Appropriations Act, 1985 (P.L. 99-88), I hereby request that the Congress approve additional authority and assistance for the Nicaraguan democratic resistance, as follows:

(1) That the sum of $100,000,000 appropriated by the Department of Defense Appropriations Act, 1986, as contained in P.L. 99-190, shall be available for transfer by the President to appropriations available for assistance to the Nicaraguan democratic resistance and shall be available for that purpose, subject to the terms and conditions of this request.

(2) That the funds transferred under paragraph (1) will include funds that have been made available for obligation beyond September 30, 1986, as provided by law: *Provided*, That not more than 25 percent shall be available for obligation upon the enactment of a joint resolution approving this request, and an additional 15 percent shall become available upon submission of each report to the Congress required by paragraph (6)(E) of this request, and no obligations may be incurred after September 30, 1987.

(3) That, of the funds transferred under paragraph (1), $30,000,000 shall be available during the period of availability of those funds for continuation of a program of humanitarian assistance to be administered by the Nicaraguan Humanitarian Assistance Office established by Executive Order 12530, of which at least $3,000,000 will be used exclusively for strengthening programs and activities of the United Nicaraguan Opposition for the observance and advancement of human rights.

(4) That, notwithstanding the proviso contained in paragraph (2) of this request, in the event of a peaceful settlement of the conflict in Central America during the period that the funds transferred under paragraph (1) are available for obligation, any remaining balance of such funds shall then also be available for purposes of relief, rehabilitation, and reconstruction in Central American countries, including Nicaragua, in accordance with the authority of chapter 4 of part II of the Foreign Assistance Act of 1961.

(5) That the approval by the Congress of this request be deemed to satisfy the requirements, terms, and conditions of section 105(a) of the Intelligence Authorization Act for Fiscal Year 1986 (P.L. 99-169) as well as statutory requirements for the authorization of appropriations (including section 10 of P.L. 91-672, section 502 of the National Security Act of 1947, and section 8109 of the Department of Defense Appropriations Act, 1986), subject to --

(A) all applicable provisions of law and established procedures relating to the oversight by the Congress of operations and departments and agencies; and

(B) the further terms and conditions specified in this request.

(6) That the approval by the Congress of this request be deemed to constitute the acceptance of the following undertakings:

(A) United States policy toward Nicaragua shall be based upon Nicaragua's responsiveness to continuing concerns by the United States and Nicaragua's neighbors about --

(i) Nicaragua's close military and security ties to Cuba, the Soviet Union, and its Warsaw Pact allies, including the presence in Nicaragua of military and security personnel from those countries;

(ii) Nicaragua's buildup of military forces in numbers disproportionate to those of its neighbors and equipped with sophisticated weapons systems and facilities designed to accommodate even more advanced equipment;

(iii) Nicaragua's unlawful support for armed subversion and terrorism directed against the democratically elected governments of other countries;

(iv) Nicaragua's internal repression and lack of opportunity for the exercise of civil and political rights that would allow the people of Nicaragua to have a meaningful voice in determining the policies of their government; and

(v) Nicaragua's refusal to negotiate in good faith for a peaceful resolution of the conflict in Central America based upon the comprehensive implementation of the September 1983 Contadora Document of Objectives and, in particular, its refusal to enter into a church-mediated national dialogue as proposed by the Nicaraguan democratic resistance on March 1, 1985.

(B) The United States will address these concerns through economic, political, and diplomatic measures, as well as through support for the Nicaraguan democratic resistance. In order to assure every opportunity for a peaceful resolution of the conflict, the United States --

(i) will engage in simultaneous bilateral discussions with the Government of Nicaragua with a view toward facilitating progress in achieving a peaceful resolution of the conflict if the Government of Nicaragua engages in a church-mediated national dialogue, as proposed by the United Nicaraguan Opposition; and

(ii) will take other positive actions in response to steps by the Government of Nicaragua toward meeting the concerns described in subparagraph (A).

(C) The duration of bilateral discussions with the Government of Nicaragua and the implementation of additional measures under subparagraph (B) shall be determined, after consultation with the Congress, by reference to Nicaragua's actions in response to the concerns described in subparagraph (A). Particular regard will be paid to whether --

(i) freedom of the press, religion, and assembly are being respected in Nicaragua;

(ii) additional arms and foreign military personnel are no longer being introduced into Nicaragua;

(iii) a cease-fire with the Nicaraguan democratic resistance is being respected; and

(iv) Nicaragua is withholding support for insurgency and terrorism in other countries.

(D) The actions by the United States in response to the concerns described in subparagraph (A), authorized by the approval of this request, are consistent with the right of the United States to defend itself and to assist its allies in accordance with international law and treaties in force. Such actions are directed to achieving a comprehensive and verifiable agreement among the countries of Central America, based upon the 1983 Contadora Document of Objectives, and internal reconciliation within Nicaragua, based upon democratic principles, without the use of force by the United States. The approval of this request shall not be construed as authorizing any member or unit of the armed forces of the United States to engage in combat against the Government of Nicaragua.

(E) The President will transmit a report to the Congress within 90 days after the date of approval of this request, and every 90 days thereafter, on actions taken to achieve a resolution of the conflict in Central America in a manner that meets the concerns described in subparagraph (A). Each such report shall include --

(i) a detailed statement of any progress made in reaching a negotiated settlement, including the willingness of the Nicaraguan democratic resistance and the Government of Nicaragua to negotiate a settlement;

(ii) a detailed accounting of the disbursements made to provide assistance with the funds made available pursuant to paragraph (1); and

(iii) a discussion of alleged human rights violations by the Nicaraguan democratic resistance and the Government of Nicaragua, including a statement of the steps taken by the Nicaraguan democratic resistance to remove from their ranks any individuals who have engaged in human rights abuses.

THE WHITE HOUSE
WASHINGTON

February 24, 1986

Dear Mr. Speaker:

The enclosed report is transmitted in compliance with the requirements of Section 722(j) of the International Security and Development Cooperation Act of 1985 (P.L. 99-83) and Section 104 of Chapter V of the Supplemental Appropriations Act, 1985 (P.L. 99-88).

The report, with appropriate background, describes: efforts by the United States and others, including developments in the Contadora process, to promote a negotiated settlement in Nicaragua; alleged human rights violations by the democratic resistance and the Government of Nicaragua; and disbursement of humanitarian assistance to the democratic resistance (with a classified annex).

During the period covered by the report, the Sandinista regime repeatedly attempted to derail the Contadora process. Last year it succeeded in causing the second suspension of the Contadora talks. At the OAS General Assembly in December, Nicaragua was the only country which opposed a resolution urging continuation of the Contadora negotiations. However, concern that Nicaragua was creating a diplomatic vacuum has prompted the Contadora countries to take actions which may revive the diplomatic process.

Internally, the Sandinistas continued their efforts to stifle dissent by increased harassment and intimidation of the Catholic Church, the Protestant evangelical community, and the opposition newspaper La Prensa. During this 90-day period, there was an escalation of virulent media attacks on Cardinal Obando y Bravo and Pope John Paul II by high ranking Sandinista leaders. The government also closed "Radio Catolica," the station of the Catholic Church.

During the period covered by the attached report, the Sandinistas continued their aggression against other countries in the region. The Department of State's Special Report, "Revolution Beyond our Borders" of July 17, 1985, documents this pattern of aggression over the years. There was dramatic confirmation during the reporting period that this aggression continues. On December 7th Honduran authorities seized a vehicle packed with ammunition, grenades, communications and encryption material, and more. The vehicle had been loaded in Managua and was on its way to delivering its cargo to the communist guerrillas fighting in El Salvador.

The Sandinistas' continued pattern of subversion, intimidation, and internal repression is clear. The Nicaraguan democratic resistance, assisted by the present program of the Nicaraguan Humanitarian Assistance Office, has maintained essential pressure on the Sandinistas in an effort to bring about a democratic outcome. It is, however, necessary that we do more to strengthen U.S. support for the Nicaraguan democratic resistance. While the present humanitarian assistance program has helped, its limitations and overt nature have made it less effective than it should be. As a Marxist-Leninist totalitarian regime allied with Cuba and the Soviet bloc, the Sandinistas will want to continue their repression, aggression, and subversion. We must make it in their interest for the commandantes of the Sandinista regime to seriously negotiate with their own internal and external opposition and with their neighbors. We must give the democrats of Central America a chance. Our goal remains pressuring the Sandinista regime into reconciliation and democratic reform at home and peace with its neighbors. If we follow this course with steadfastness and resolve, we can assure a better tomorrow for all the people of this hemisphere.

Sincerely,

Ronald Reagan

The Honorable Thomas P. O'Neill, Jr.
Speaker of the
House of Representatives
Washington, D.C. 20515

THE WHITE HOUSE

REPORT ON NICARAGUA

February 4, 1986

EFFORTS TO PROMOTE A SETTLEMENT IN CENTRAL AMERICA AND IN NICARAGUA

Summary:

The only Contadora negotiations on a regional treaty during this period were held November 19-21. Those talks, involving all nine participating governments, reportedly resulted in some progress on verification and related issues and the five Central American delegations recommended that the negotiations be continued. On December 3, however, Nicaragua asked that they be suspended until May, 1986. The United States, the Contadora Group (Colombia, Mexico, Panama and Venezuela), Contadora Support Group (Argentina, Brazil, Peru and Uruguay), and the four democratic Central American states have publicly urged their resumption. On January 15, Nicaragua endorsed a call by the Contadora Group and Support Group to resume talks, but appeared the following day to condition resumption upon a number of prior actions. At this writing, there are unconfirmed reports that negotiations may resume February 14-17. Whether Nicaragua merely takes a seat at the negotiating table or negotiates seriously remains to be seen.

This period witnessed increased international recognition of the fundamental importance of democratic national reconciliation to a regional solution. On January 12, the foreign ministers of the Contadora Group and Support Group, meeting in Caraballeda, Venezuela, issued a statement emphasizing democratic pluralism and pledged their good offices to "promote new steps" of national reconciliation. Recalling our pledge to renew bilateral talks with Nicaragua if the Sandinistas accepted a Church-mediated dialogue with the United Nicaraguan Opposition (UNO), the United States on January 17 expressed strong interest in the Caraballeda statement. To explore possibilities for diplomatic progress Central American Special Envoy Shlaudeman consulted with several Contadora Group and Central American states January 19-23; Secretary of State Shultz has invited the eight foreign ministers of the Contadora Group and Support Group to a meeting February 10 in Washington.

* * *

Continuing attempts to circumvent Contadora that became apparent in late 1983 and even more obvious in 1984 and 1985,[1] Nicaragua during the last ninety days has tried repeatedly to derail negotiations aimed at producing a final comprehensive Contadora treaty.

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[1] See the November 6, 1985 Report on Nicaragua.

Following two rounds of talks in October, on November 11 Nicaragua made public a letter from President Ortega to the presidents of the eight Contadora Group and Support Group governments setting forth objections to the September 12, 1985 draft agreement tabled by the Contadora Group governments. Nicaragua argued that it could not assume the obligations of a Contadora agreement unless it reached a prior accommodation with the United States. Among other demands, it insisted that the United States sign a special protocol to a Contadora agreement pledging itself to a permanent policy of non-aggression toward Nicaragua, in effect a pledge that we would not respond to Sandinista actions regardless of what they do. Nicaragua also objected to the September draft's provision that one international military exercise per year[2] could be held until the parties to an agreement adjusted their military inventories and troop levels to agreed limits.[3]

On November 19-21, plenipotentiary negotiators of the Central American and four Contadora Group governments met for a third round of talks. Progress reportedly was made on verification and the question of when treaty obligations would enter into effect, but the previously agreed 45-day self-imposed period for completing negotiations expired on November 20 without agreement. The delegates nonetheless continued meeting for another day and unanimously recommended to their governments that negotiations be extended indefinitely.

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[2] The one exercise per year would be subject to the following, additional restrictions: a ceiling of 3,000 combined national and foreign troops, with foreign troops not to exceed national troops; a maximum duration of 15 days; 90-days prior notice; and a prohibition on exercising within 50 kilometers of non-consenting states.

[3] The Nicaraguan letter of November 11 was released, inexplicably, as the foreign ministers of the European Communities, Spain, and Portugal met November 11-12 in Luxembourg with the foreign ministers of Central America and the Contadora Group. The ministers approved an EC-Central American economic agreement that is intended to provide the framework for increasing EC economic assistance to Central America. The ministers' political communique supported the Contadora process and emphasized democratic pluralism and, significantly, in light of Nicaragua's suspension of civil liberties on October 15, individual civil liberties. While the EC-Central American meeting was seen as improving the atmosphere for Contadora talks, the Nicaraguan letter introduced a strong element of pessimism.

On December 2, in Cartagena, Colombia, at the OAS General Assembly, Secretary of State Shultz met with the foreign ministers of the Contadora Group governments to review the status of negotiations. At that time, it was assumed that Contadora negotiations would resume, possibly before Christmas, even though Nicaragua had the day before announced that it would not take part in any Contadora meetings during the OAS General Assembly. (Nicaragua sent a third-level foreign ministry official to the December 2 meeting of OAS foreign ministers.) On December 3, however, Nicaraguan President Daniel Ortega formally requested a suspension in Contadora negotiations until May, 1986. Nicaragua based its request on the grounds that Costa Rica, Honduras and Guatemala were not in a position to negotiate owing to their presidential elections.

Reserving the right to speak for themselves, Costa Rica, Honduras and Guatemala joined 25 other OAS member states in voting for a resolution at Cartagena that simply urged continuation of negotiations. Only Nicaragua voted against. Approval of the resolution followed submission of a status report by the Contadora Group foreign ministers to OAS Secretary General Baena Soares recording their view that talks should continue. Nicaragua's refusal to resume Contadora talks was a major factor in the failure, in the United Nations General Assembly, to achieve consensus on a resolution of support for the Contadora process.

Diplomatic activity during the month after the OAS General Assembly consisted of informal consultations as to how the negotiating process might be resumed. Several Contadora Group foreign ministers, including Venezuela's Consalvi and Mexico's Sepulveda, publicly regretted the suspension of talks and expressed concern that a suspension in talks would create a diplomatic vacuum.

Meeting in Caraballeda, Venezuela, January 11-12, the foreign ministers of the Contadora Group and the Support Group issued a joint statement intended to get talks going again. This "Message of Caraballeda" reiterated basic Contadora principles; urged a series of actions to create a climate in which negotiations could succeed (including, as the first step listed, resumption of talks); and offered Contadora Group and Support Group good offices both to "promote new steps of national reconciliation" and to encourage resumption of U.S.-Nicaraguan bilateral talks.

On January 15, at the inauguration of Vinicio Cerezo as President of Guatemala, the foreign ministers of the five Central American states, including Nicaragua, signed the "Declaration of Guatemala," endorsing the Caraballeda Message. (It was also agreed that the five Central American presidents would hold a summit in May in Esquipulas, Guatemala.) The Sandinistas reportedly agreed to the Caraballeda message after extended discussions with the foreign ministers of the Contadora Groups, and with President Betancur of Colombia, as to its precise meaning.

While its endorsement of Caraballeda was encouraging, Nicaragua issued a press communique the next day that appeared to hedge its acceptance. While noting its "total adherence" to the Caraballeda Message, the January 16 statement characterized the various actions suggested in the Caraballeda Message as prerequisites to resumption of Contadora negotiations. It also reaffirmed the Nicaraguan position of November 11 objecting to the Contadora draft agreement. On the other hand, there are now reports that a meeting of Contadora plenipotentiaries will be held February 14-17. The key question, assuming talks are resumed, is whether Nicaragua is returning to negotiate in good faith or is merely taking a seat at the table to escape further blame for thwarting the peace process and to influence international opinion.

The United States on January 17 welcomed the prospect of renewed negotiations.[4] Our statement noted that Sandinista acceptance of Caraballeda, which emphasized "new steps" to promote national reconciliation, was an interesting development. We reaffirmed our public commitment to resume bilateral talks with Nicaragua if the Sandinistas accept the March 1985 dialogue proposal of the democratic resistance[5] and stated our interest in exploring the possibilities presented by the Caraballeda initiative. Special Envoy Shlaudeman visited three of four Contadora Group countries January 19-23 for that purpose and Secretary of State Shultz has invited the foreign ministers of the eight Contadora Group and Support Group governments to Washington for a meeting February 10 for further consultations.[6]

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[4] See Annex A.

[5] The principal provisions of the March proposal called for Roman Catholic Church mediation, a cease-fire, and suspension of the State of Emergency.

[6] A complete chronology of diplomatic events during the period covered by this report is provided in Annex B.

ANNEX A

January 17, 1986

Department of State Statement on Contadora

ON JANUARY 12 THE FOREIGN MINISTERS OF THE CONTADORA GROUP AND CONTADORA SUPPORT GROUP, MEETING IN CARABALLEDA, VENEZUELA, ISSUED A "MESSAGE FOR PEACE, SECURITY, AND DEMOCRACY IN CENTRAL AMERICA." THE AMBASSADORS OF THESE EIGHT GOVERNMENTS REQUESTED A MEETING WITH SECRETARY OF STATE SHULTZ TO PRESENT THE DOCUMENT AND THAT MEETING WAS HELD YESTERDAY, JANUARY 16.

IN THIS MEETING THE SECRETARY REAFFIRMED OUR STRONG SUPPORT FOR THE PEACE EFFORTS OF THE CONTADORA GROUPS AND SAID WE WELCOMED CONTINUATION OF THE DIPLOMATIC PROCESS. THE SECRETARY SAID THAT IN OUR VIEW NICARAGUA'S BEHAVIOR, IN PARTICULAR ITS REPEATED FAILURE TO KEEP ITS WORD, IS THE HEART OF THE PROBLEM AND THAT, FOR THIS REASON, WE LOOK AT PROSPECTIVE AGREEMENTS FROM THE STANDPOINT OF WORKABILITY.

THE SECRETARY SAID WE WOULD GIVE THE CARABALLEDA MESSAGE VERY CAREFUL STUDY AND THAT IF THERE IS ANY WAY IN WHICH WE THINK WE CAN CONTRIBUTE, WE WILL DO SO. IN THIS RESPECT, WE WILL BE CONSULTING WITH THE CONTADORA GROUP AND CENTRAL AMERICAN COUNTRIES IN THE NEXT FEW DAYS AND WEEKS ABOUT THE POSSIBILITIES CONTAINED IN THIS MESSAGE. AMBASSADOR SHLAUDEMAN WILL BE VISITING THE REGION NEXT WEEK FOR THIS PURPOSE.

AS IS KNOWN, OUR POSITION ON RESUMING BILATERAL TALKS WITH NICARAGUA HAS BEEN THAT WE WILL RESUME TALKS IF THE GOVERNMENT OF NICARAGUA ACCEPTS THE MARCH 1985 PROPOSAL OF THE DEMOCRATIC RESISTANCE FOR A CHURCH-MEDIATED DIALOGUE, CEASE-FIRE, AND SUSPENSION OF THE STATE OF EMERGENCY.

THAT COMMITMENT STILL STANDS. IT IS OUR UNDERSTANDING THAT NICARAGUA HAS ENDORSED THE CONTADORA COMMUNIQUE, WHICH HEAVILY EMPHASIZES NATIONAL RECONCILIATION AND WHICH PROMISES "NEW STEPS" TO PROMOTE NATIONAL RECONCILIATION. WE ARE VERY INTERESTED IN EXPLORING WHAT THIS MEANS.

ANNEX B

CHRONOLOGY OF KEY DIPLOMATIC EVENTS
November, 1985 - January, 1986

1985

November 11-12: Foreign ministers of the nine Central American and Contadora Group governments meet with the foreign ministers of the EC-10, Spain, and Portugal, in Luxembourg. EC-Central American economic agreement is signed; political communique supports Contadora and stresses democratic pluralism and civil liberties.

November 11: Nicaragua publishes letter to Contadora Group and Support Group presidents detailing objections to the Contadora Group's September 12, 1985 draft of a final agreement. Nicaragua's position, in essence, is to insist on an accommodation with the United States prior to a Contadora agreement.

November 19-21: Third round of negotiations among Contadora "plenipotentiaries" held in Panama. Some progress on verification and related issues is achieved. All delegations recommend extending 45-day deadline for final agreement.

November 22: U.S. Permanent Representative to the United Nations Walters addresses the General Assembly on continued US support of the Contadora process.

December 1: Nicaragua announces that it will not take part in the Contadora meetings to be held on the margins of the OAS General Assembly meeting in Cartagena, Colombia, December 2-5.

December 2: Secretary of State Shultz meets with Contadora Group foreign ministers at the OAS General Assembly in Cartagena.

December 3: Nicaragua submits formal request for suspension of Contadora peace negotiations until May, 1986.

December 6: Contadora Group submits report to OAS Secretary General expressing hope that negotiations will continue.

December 7: Nicaragua reiterates its request for suspension of Contadora talks at a SELA (Latin American Economic System) meeting in Caracus, Venezuela.

December 9: OAS General Assembly Resolution, opposed by Nicaragua only, urges continuation of Contadora talks.

December 10: Venezuelan officials publicly oppose suspension of talks.

December 17-18: Contadora Group governments consult informally in Montevideo.

1986

January 8: Nicaragua publishes letter from President Ortega to the presidents of the Contadora Group and the Support Group proposing a scaled-down treaty of general principles (in lieu of a comprehensive Contadora treaty) and a series of bilateral talks, including U.S.-Nicaraguan talks.

January 11-12: Eight foreign ministers of the Contadora Group and Support Group governments, meeting in Caraballeda, Venezuela, issue the "Message of Caraballeda." It reiterates basic Contadora principles; urges actions to create climate for negotiations, including resumption of Contadora talks; and offers Contadora good offices to "promote new steps of national reconciliation" and renewal of U.S.-Nicaraguan bilateral talks.

January 14: Vice President Bush leads United States delegation to inauguration of Guatemalan President Vinicio Cerezo.

January 15: Foreign ministers of the five Central American states sign the "Declaration of Guatemala" endorsing the "Caraballeda Communique."

January 15: Central American presidents agree to hold summit in Esquipulas, Guatemala, in May.

January 16: Central American presidents issue statement expressing satisfaction that their foreign ministers have endorsed the Message of Caraballeda.

January 16: Nicaragua publicly reaffirms its position on Contadora, as set forth in its November 11 statement, and describes actions called for in the Caraballeda Message as prerequisites to Contadora talks.

January 16: Secretary Shultz receives the Caraballeda Message from Washington ambassadors of the Contadora Group and Support Group governments and promises to give it careful study.

January 17: US statement on Caraballeda announces visit of Ambassador Shlaudeman to Central American and Contadora Group countries to explore possibilities in the Caraballeda Message.

January 17: President-elect Jose Azcona of Honduras visits Washington for consultations. At National Press Club, Azcona opposes resumption of U.S.-Nicaraguan bilateral talks as detracting from Contadora.

January 19-23: Ambassador Shlaudeman visits Panama, Costa Rica, El Salvador, Colombia and Venezuela.

January 25: Secretary of State Shultz invites foreign ministers of the Contadora Group and Support Group governments to Washington for February 10 consultations.

January 26-27: Vice President Bush leads United States delegation to inauguration of Honduran President Azcona, meets with several Contadora and Central American presidents and foreign ministers.

HUMAN RIGHTS: THE ARMED RESISTANCE

Since the submission to Congress of the previous report, the United Nicaraguan Opposition (UNO) has continued and expanded its efforts to improve its forces' record on human rights. Toward that end, UNO has established an autonomous Human Rights Commission (UNO-CDH), based in Costa Rica; the fundamental objective of this organization is the promotion, protection, and defense of human rights in Nicaragua. The central concern of UNO-CDH will be the observance by both parties to the civil conflict of the basic principles of human rights. UNO-CDH is currently processing information on charges received concerning alleged abuses committed by both resistance and Sandinista forces. The Commission and prosecutors from various UNO armed elements are also reviewing cases investigated by the prosecutors and the punitive measures taken, where appropriate, against those responsible.

Ismael Reyes, former president of the Nicaraguan Red Cross, presides over the new Commission's Executive Council, other members of which are Santiago Anitua (a Jesuit priest), Lucia Salazar -- the widow of slain private sector leader Jorge Salazar --, and Wycliffe Diego of the Indian-Creole organization KISAN. The Executive Director is Roberto Ferrey, an attorney and founder of the Social Christian Youth Front, which actively opposed former dictator Anastasio Somoza. Following a period of exile from 1976-79, he served as a legal advisor to the Minister of Justice in the post-revolutionary period. He left the country again in 1983, disillusioned by mounting repression inside Nicaragua. Antonio Ruiz, a human rights activist and one of the original members of Nicaragua's Permanent Commission on Human Rights (CPDH), serves as Assistant Executive Director. The Commission's Legal Department will be headed by Alberto Gamez Ortega, a former Vice Minister of Justice in the post-revolution government.

The Legal Department will supervise two subsections, one responsible for investigations and one for publications. Mateo Guerrero, former Executive Director of the Sandinista-sponsored human rights commission CNPPDH, and Alvaro Baldizon, formerly an investigator with the Ministry of Interior, will handle the investigative duties.

Two other elements of the Commission will be an Education and Training Department, directed by Fr. Santiago Anitua, who was expelled from Nicaragua in 1985 by the Sandinista regime, and a Refugee Department, the supervisor of which has not yet been named.

The new Commission is working closely with the prosecutors attached to each of UNO's armed elements, who provide necessary information to UNO-CDH and conduct investigations and prosecutions within their respective jurisdictions.

During this period, UNO human rights officers continued efforts to arrange a system for prisoner exchanges through the good offices of the International Committee of the Red Cross (ICRC) and regional Red Cross Societies and to reach a bilateral agreement with the Sandinistas, through the Red Cross, for the mutual observance of human rights. UNO also has continued to provide these organizations with information concerning Sandinista casualties and prisoners. In order to promote contact with ICRC, UNO in November opened an office in Geneva. According to Dr. Carlos Icaza, prosecutor for the Nicaraguan Democratic Forces, the Sandinista regime for the last year has refused to cooperate in this endeavor, rejecting any prisoner exchanges on Nicaraguan territory. This refusal is attributed in part to a concern that such exchanges would constitute an admission by the regime that the resistance operates within the country and a tacit legitimation of the resistance.

In November, UNO/FDN reported that sixty officers were in training to assume responsibility as human rights officers with the regional commands and task forces. Troops continued to receive general human rights instruction as part of their basic military training, and UNO/FDN plans to expand this instruction to cover all members of the FDN military forces. UNO/CDH held a seminar from January 15-18 on human rights and humanitarian law with 23 leaders of KISAN and 18 civilian Indian leaders from the Council of Elders.

UNO human rights officers have assumed responsibility for monitoring the welfare of those captured during combat. Forces reporting the capture of enemy troops are reminded by headquarters of their responsibility to ensure the prisoners' physical security and to observe internationally recognized standards for their treatment in captivity. In one instance, rather than abandon a 14-year old Sandinista combatant wounded in a January engagement at Copernal, the boy was taken with the FDN forces, given medical treatment by field personnel, and released.

UNO's commitment to human rights has been set forth unambiguously in a statement of principles and objectives presented to the public on January 22, 1986. Undertaking in that document "the unrestricted observance of the human rights of all Nicaraguans without exception," UNO pledges to respect the ethnic, cultural and religious values of Nicaragua's people; to establish a rule of law which assures the equality of citizens and the full exercise and development of human rights based on an independent judiciary; to guarantee all basic freedoms; and to adhere strictly to the obligations assumed under international agreements. UNO further pledges to respect the activities within Nicaragua of human rights organizations.

Abuses by Resistance Forces

Among the abuses attributed since November 1 to the armed resistance by Sandinista authorities were the murders of 32 school children and the "assassination" of farmers, although no number or details concerning the latter offense were offered. We have no other evidence that those assassinations actually occurred. Foreign Minister Miguel D'Escoto publicized the alleged murder of school children while in Canberra, claiming that resistance forces had opened fire on the students while they were at school. When the issue was raised with Sandinista officials in Managua, however, it was learned that the incident in question actually involved an attack on a military training center, in which 30 members of the Sandinista militia were killed.

According to the Sandinista press, during this period the armed resistance killed eleven civilians, injured 21, and kidnapped at least forty-seven. It was also implied that 18-20 unidentified bodies found in a mass grave were victims of the resistance, although that charge was not specifically made. The press further reported that a total of 81 persons allegedly kidnapped by the resistance had been "rescued" and had requested and been granted amnesty by the Sandinistas. Eighteen of those allegedly kidnapped admitted they received military training with the resistance during their four months of "captivity," and asserted that they had been forced to work under duress. The granting of amnesty suggests that those involved may have been deserters from the armed resistance or persons captured during military operations. This suspicion is strengthened by reports in the Sandinista press that 44 persons granted amnesty in January were draft evaders and "contra deserters."

In most cases, information provided by the Sandinista press can be neither confirmed nor refuted by independent information, either because of the areas in which the incidents are said to have occurred or because of a lack of precise details. In one instance, however, Embassy personnel visited the site of a reported "contra" attack to determine the facts. According to the FSLN daily Barricada, on January 25 the town of San Pedro de Lovago was attacked by "hundreds" of contra and the attack repelled by eight Sandinista soldiers. It was also claimed that the contra wounded two civilians, and one of the attackers was killed. He was identified by Barricada as "jefe," Felix Matus, a former resident of the town known to residents as a cattle thief.

Embassy officers were unable to find any signs of the heavy firing in the plaza described by Barricada; there was no damage to the Church or houses in the vicinity of the attack. Residents with whom the officers spoke, including four witnesses, stated that the attack began at about 10:30 pm, and firing lasted about 30 minutes. In the morning, it was discovered that a member of the resistance had been killed and two civilians, including a ten-year old girl, had been wounded. Of the people questioned, no one had any idea how many persons had attacked, except for one Sandinista official who stated that 100-150 were involved. Another Sandinista official claimed that many of the attackers had been wounded. The two wounded civilians could not be located, but neighbors said that they lived in houses facing the site of the attack and to the rear of the position held by the attackers where the dead body was found. Both were said to have been wounded by shrapnel from a grenade. The only person cited by witnesses and the Sandinista press as having thrown a grenade was a member of the Sandinista militia. Neighbors stated that the man was wounded in the ankle, and no one knew the injuries of the girl. Neither had been taken to the hospital.

Concerning the identity of the "jefe," residents, including the two officials, denied any knowledge of the man. All who were shown the Barricada article agreed that Felix Matus was not from San Pedro de Lovago.

The distinction between civilians and military personnel is increasingly blurred in the Nicaraguan conflict as the Sandinistas continue their policy of arming persons in civilian occupations and tasking them with military responsibilities. FSLN coordinator Carlos Zamora, according to a December 28 Barricada report, announced that half of the 10,000 coffee pickers in Military Region VI had been armed and had received military training. Armed harvesters included members of the Sandinista Youth described as occupying the "second defensive echelon...after the irregular warfare troops...the permanent territorial troops and the territorial militia." Newspapers also have printed photographs of uniformed and partially-uniformed members of "harvest brigades" who are virtually indistinguishable from regular army troops. On January 11, Daniel Ortega distributed land titles for communal farms. At the same time, he distributed rifles to the farmers. On January 12, El Nuevo Diario reported the formation of the Manuel Escobar Shock Brigade, which will be sent to build bridges and roads in Northern Zelaya. The youths pictured in the article were uniformed, and brigade members were described as members of the Army reserve, militarily experienced, and "ready to work with a rifle at their shoulder." The sixty-one members were said to be prepared to act as "soldiers" if necessary. By arming persons engaged in what are normally civilian occupations and placing them in war zones, the Sandinista regime compromises the protections accorded civilians under internationally-recognized rules of conflict. The Sandinista press does not explicitly acknowledge the deaths of persons in this category in its reporting. Those the Sandinista press reported killed by the armed resistance between November 1 and January 31 included only the military, the militia, the police, and civilians. The press did not report how many of these alleged civilian casualties involved persons acting in a military or paramilitary capacity.

The most highly publicized charge of atrocities during this period was made by Maria Mercedes Obregon Rivas at a press conference in Managua on November 13. A member of the "50th Anniversary Brigade" -- a group that provides basic education in rural areas and that is also normally tasked with military responsibilities, according to Sandinista publications -- Obregon and eight others were taken prisoner by the resistance in late 1984. According to a report filed by a Reuter correspondent present at the press conference, Obregon claimed to have escaped at great risk from an FDN camp and to have been raped and tortured during her captivity. She also reportedly stated that she had "no idea" what had happened to the others taken prisoner with her. Nevertheless, the Sandinista press reported on November 14 that Obregon charged the resistance with the rape and murder of Ana Julia Cortes Martinez and the "assassination" of three other companions in her group. She claimed to have learned of their deaths only indirectly, having been separated from the other prisoners immediately after her capture.

Information provided to the ICRC by UNO/FDN in response to a specific inquiry, well before Obregon's reappearance in Managua, offered a different version. According to UNO/FDN, Maria Obregon worked as a volunteer with the FDN after her capture, operating in a task force commanded by "El Tigrillo." After several months, she left the FDN and began living with another ex-FDN combatant, "Gato Negro," in Danli, Honduras, where she worked as a waitress in the El Rodeo restaurant. She later legally departed Honduras, which departure was recorded with Honduran Immigration.

While the question might arise whether Obregon, if she did cooperate with the FDN, did so for fear of retribution, it should be noted that another of those taken prisoner with Obregon chose not to work with the FDN and remains in an FDN prison awaiting exchange or release. Obregon admitted to having seen this woman, and made no claims that she was being mistreated. Obregon did not mention another of the nine prisoners, Marcia Chamorro, who has been active with the resistance since being taken captive by the FDN, and who has made several addresses on Radio 15 September.

UNO reports that it has eleven pending cases involving various human rights abuses. One of the cases, involving a task force commander charged with several counts of rape, has resulted in conviction. He is currently under detention and his sentence is due to be announced shortly. A denunciation of these crimes by members of his own command was the initiating cause for investigation.

In a second case, another task force commander is now under restriction, charged with plotting the murder of one man and then murdering the person whom he convinced to commit the crime. The actual facts of the crimes, however, remain unresolved, as another person has been denounced as the actual perpetrator of the murders. The investigation of the case is still underway.

HUMAN RIGHTS: THE SANDINISTA REGIME

The human rights situation in Nicaragua, which has steadily deteriorated during the period of Sandinista rule, has worsened markedly since the promulgation of the renewed State of Emergency on October 15. In an ominous series of tactical moves against the civil opposition, the chief victim of which has been the Catholic Church, the Sandinista regime has acted forcefully to use the vastly expanded powers it assumed under the decree to silence dissent and extend its control over all sectors of the population. The following citation from an interview with Tomas Borge, printed in Mexico's Excelsior November 16, captures the Sandinista view of "political pluralism":

> "Our enemies have organized to disown the state institutions and validate the counterrevolution. Certain sectors have organized and are shielding themselves behind religious organizations -- the Catholic Church -- or some rightist institutions to plant the position of the U.S. administration in the conscience of our people as something natural...The newspaper LA PRENSA was censored on various occasions, but failed to comply with the censorship. On many occasions, Mr. Bismarck Carballo, director of a radio station which is linked to the country's most reactionary religious sector, disobeyed numerous orders from the Communications Media Directorate. They met in churches and private places to justify counterrevolutionary activity. Leaders of the Council for Private Enterprise have repeatedly called for identification with the counterrevolutionary armed struggle. In the same vein, in the church, some priests have openly proclaimed their identification with the counterrevolution. That is, the permanent drizzle on the conscience of the people...confused a sector of the population. We cannot afford to let the enemies of the people take advantage of the weaknesses that are characteristic of the revolution...to sow discord and distrust, and to misguide and divide the people."

The intensified assault on the Catholic Church, begun in September 1985, continued and sharpened during the past three months. As the country's leading spiritual authority and staunch defender against depredations on the basic rights of the Nicaraguan people, both now and during the Somoza regime the Church constitutes the single greatest impediment to the consolidation of Sandinista one-party rule. It is not surprising, therefore, that the regime has focused its efforts on the Church as the main target of oppression.

Between November 1 and January 31, actions taken by the Sandinista regime to undermine the Church included the following:

- -- arrests, interrogations, and in some cases imprisonment of Catholic lay workers;
- -- interrogation of priests, in at least two instances involving physical abuse, and warnings of possible expulsion of foreign priests;
- -- censorship of Church-related news from La Prensa;
- -- arrest and deportation of a Salvadoran technician employed by the now-occupied Curia Social Services Offices (COPROSA), on charges of "counterrevolutionary activities" and confiscation of his home;
- -- declaration of COPROSA as "illegal" by the Ministry of Justice;
- -- closure of Radio Catolica;
- -- denial of permission for Cardinal Obando to deliver the traditional Christmas mass for patients at a health center;
- -- escalation of virulent media attacks on Nicaraguan Church leaders and Pope John Paul II by high-ranking Sandinistas, including Daniel Ortega, Sergio Ramirez, Tomas Borge, Omar Cabezas, and Miguel D'Escoto.

Based on actions taken to date and statements by Sandinista leaders, the Sandinista strategy against the Catholic Church appears to have two goals: decimation of the ranks of traditional clergy and the isolation of the Church from its worshippers. The forced draft of Nicaraguans studying for the priesthood, continuing threats to expel foreign priests loyal to the Church, and the regime's recently announced decision to deny entry to "new foreign priests" to replace those expelled clearly indicate the methods to be used to implement the first element of the strategy.

The media campaign against other Church leaders, who fall neither into the draft-age nor foreign-born groups, suggests that other actions are intended to deal with them. The thrust of the statements by Sandinista leaders is that the Pope, Cardinal Obando, and such Church leaders as Monsignor Bismarck Carballo are direct agents of the counterrevolution and the CIA and thus fall beyond the protection normally afforded members of the Church. The latest salvo in this attack came in late January. El Nuevo Diario on January 24 published several articles condemning the Cardinal's January visit to the United States and asserting that the purpose of the trip was to lobby in favor of military assistance to the counterrevolution. The newspaper also published a letter purportedly from a "voluntary coffee picker" demanding to know why Cardinal Obando was being allowed to reenter Nicaragua. This theme was repeated in the following days, and a new suggestion raised that the Cardinal had left himself open to arrest and trial by his actions in the United States.

On January 25, Sandinista media announced the apprehension of members of an "internal front" who allegedly were preparing a series of terrorist incidents in Nicaragua. Of the twenty-five persons arrested around the country, the "ringleaders" were alleged to have links to various sectors of the civil opposition: the independent trade unions, the Social Christian Party, and the Catholic Church. Thus, Guillermo Aguilera, who allegedly received his orders from Honduras, was an "ex-director" of the Nicaraguan Workers Central Union who acted in concert with Father Oswaldo Mondragon. Father Mondragon is in charge of the seminary from which students were forcibly drafted in September; his involvement in public protests of the action has caused the regime considerable embarassment. Father Mondragon on January 24 received a summons to State Security. He was released after interrogation with a warning that he would be watched.

The second element of the strategy, already well underway, involves denial to the Church of the means of mass communication, increasingly severe restrictions on permissible Church activities, and expanded control over those activities officially tolerated. Implementation thus far has been initiated through the prohibition of the Church newspaper; closure of Radio Catolica; censorship of Church-related news from other media; declaration as illegal of traditional Church services related to housing, health and education and seizure of premises and records of the Church agency responsible for those areas; prohibition of outdoor masses; imposition of government control over the internal travel of Cardinal Obando for the purpose of delivering mass; and the institution of mandatory Marxist-Leninist indoctrination in Church-run schools.

The plight of the Church has been publicized and its cause supported by, among others, Nicaragua's Permanent Commission on Human Rights (CPDH), the Central American bishops, and Pope John Paul II. The reaction from the Sandinistas was predictable. Vice President Sergio Ramirez on November 3 told Brazilian newsmen that the Pope's "policy in Central America greatly resembles that of Ronald Reagan...the Pope decided to promote Bishop Obando to the post of cardinal to cause discomfort to the government of Nicaragua." Ironically, he flatly denied the existence of a Church-State confrontation.

This theme was repeated by Minister of Interior Tomas Borge in a January 6 interview with Mexico's El Dia, in which he ridiculed the Cardinal's masses in rural areas as "applause-seeking...not for evangelism and religious faith but for a political project that coincides fully with that of Reagan." Labeling Cardinal Obando "the spiritual guide" of the armed resistance and comparing him to the infamous Borgias, Borge declared him outside the "transcendental and metaphysical" character of the Church. Daniel Ortega on January 13 justified the regime's expulsion from Nicaragua of ten priests by comparing its action to the alleged "expulsion" from religious duties of 100 priests by Catholic authorities. To our knowledge, only the four priests who held high-level government positions were deprived of the right to offer the sacraments while retaining their official status.

The attack on religious liberty was broadened with a campaign of harassment against Nicaragua's Protestant evangelical community. Although this group had been the victim of earlier attempts at intimidation, such as refusal to allow the use of meeting places and denial of entry to the country to foreign evangelists, the attack intensified on October 30 when many of the community's leaders and activists were arrested and subjected to lengthy and threatening interrogations. Among the most prominent of those arrested were Reverend Felix Rosales, President of the National Council of Evangelical Pastors (CNPEN), Dr. Jimmy Hassan of the Crusade of Students and Professionals for Christ, Dr. Ignacio Hernandez, President of the Nicaraguan Bible Society, Modesto Alvarez of the Alliance for the Evangelization of Children, and Reverend Boanerges Mendoza, pastor of the First Evangelical Church of Central America.

According to censored La Prensa reports on the round-up and information provided by those involved, the evangelicals were stripped, searched, photographed, fingerprinted, and held naked for several hours in a room maintained at an extremely low temperature. They were then given prison uniforms and questioned concerning their travels outside Nicaragua and contacts with foreign evangelicals. Journalists in Managua also reported that those interrogated were warned that under the State of Emergency prayer meetings were illegal. After interrogation, the detainees were taken to dark, cramped, airless cells, where they were held for several more hours without food or water before being released. All were warned, when set free, to avoid all contact with the U.S. Embassy, and to remain silent concerning their arrest and detention.

On October 31, in an incident suppressed by the Sandinistas until January 9, evangelical minister Juan Pablo Pineda was murdered, ostensibly by two Sandinista soldiers whom the regime claims to have tried and sentenced for the crime. No details of the murder have been provided, but its coincidence with the round-up by State Security of other evangelical leaders raises serious questions about the reliability of the claim that the murder was a random act.

On November 1, State Security agents conducted an armed search of Campus Crusade for Christ headquarters, seizing all written and printed materials, as well as mimeograph machines.

Reverend Mendoza, having failed to observe the warning not to discuss his incarceration, was again arrested by State Security on November 11. His home was searched and his personal and professional papers confiscated, as was his automobile. Mendoza was released November 21, and has since declined to divulge any details concerning his imprisonment. In December Dr. Jimmy Hassan, of the Crusade of Students and Professionals for Christ, elected to leave Nicaragua permanently because of the severity of the harassment directed against himself and his family.

As of November 12, according to a member of the evangelical community, all those who had been arrested in October were being kept under constant surveillance at home, at work, and at church. Since the first wave of arrests on October 30, twelve other evangelicals have reportedly been arrested in Southern Zelaya.

As in the case of the Catholic Church, Sandinista spokesmen have dismissed the complaints of their victims and denied that the actions taken against them represent religious persecution. In a November 28 press conference, Chief of Internal Order Omar Cabezas (since promoted to Chief of the Directorate of State Security) admitted the arrests of the evangelicals, even citing their names. At the same time, he declared that the National Council of Evangelical Pastors was an illegal organization and charged all those arrested with criminal activity for preaching "disobedience to the law," specifically alleging that they spoke against the draft. Cabezas further accused them of being agents of the Institute for Religion and Democracy ("the child of President Reagan and the CIA") and of smuggling into Nicaragua large sums of foreign currency and pacifist literature "based on the Bible." Cabezas accused Dr. Hassan of operating a "clandestine printing shop" in violation of the country's laws on printing presses; termed Modesto Alvarez a "bad-mannered Salvadoran" seeking to export "Salvador's system" to Nicaragua; and claimed that Reverend Mendoza was rearrested for continuing to speak against the draft. Cabezas also stated that Mendoza's imprisonment was extended because of his "frequent contradictions" and suggested that Mendoza was mentally ill, a familiar charge against the opponents of communist regimes.

Press Censorship

> "The criticism from La Prensa, from Radio Catolica, and the whole lot of propaganda from abroad is intended to be destructive. Only constructive criticism is acceptable in a revolutionary process."
> - Tomas Borge, Pensiamento Proprio
> June 1985

Censorship of Nicaragua's independent media increased in the wake of the October 15 State of Emergency. During the November 1-January 31 period, Radio Catolica was closed for repeated "violations of law;" the Permanent Commission on Human Rights was officially notified that henceforth all of its letters, communiques, and reports must be submitted for censorship review; "Conservatism on the Move," a radio program of the Conservative Party, was suspended; publication of an irregularly-issued flyer "Prisma" was suspended and three of its editors -- two of whom are also La Prensa reporters -- were arrested for violating the "Law for the Maintenance of Order and Public Security;" Solidaridad, the official monthly magazine of the independent Confederation of Labor Unification (CUS) was suspended; and attacks on independent La Prensa escalated, bringing the conflict between the newspaper's editorial board and State Security to open confrontation.

Stringent censorship of La Prensa continued, with most news relating to the Catholic Church, as well as reports of attacks on evangelicals, deleted by censors. Despite regime claims that only sensitive military and economic information was subject to review, articles banned included reports on the formation of a Church human rights commission, a meeting of the Independent Liberal Party, the closure of a coffee plant due to material shortages, public dissatisfaction with the conduct of resident Cubans, the influx of migrants to Managua, arrests of civil opposition leaders, and clarification of currency laws. Censorship resulted in the gutting of the daily editions of La Prensa, affecting approximately 80% of the paper's material.

On November 5, in response to the increasingly severe censorship imposed on the paper, co-director Jaime Chamorro sent a letter to National Assembly President Carlos Nunez complaining of the failure of the Communications Media Directorate to observe the limits to its authority as stated in an amendment passed by the Assembly. Chamorro pointed out that the Directorate had gone so far as to censor La Prensa's report on the amendments made by the Assembly to the State of Emergency.

In lieu of a response to La Prensa's complaint, on December 2 the editorial board received notification from the Directorate that the continued distribution of censored articles -- regularly given to foreign journalists and members of the diplomatic community -- would result in actions against the paper's directors. Jaime Chamorro, to whom the letter was addressed, was warned that "the next violation will be rigorously sanctioned." La Prensa's board responded by cancelling the December 2 issue, and called a press conference to publicize the threats against the newspaper and its editors. Chamorro also filed a sworn statement with Managua's Appellate Tribunal rejecting the charges of illegal activity and requesting an injunction against the chief officer of the Communications Media Directorate. No action has yet been taken on Chamorro's complaints, nor is any remedial action expected. Instead, on December 6 the newspaper was prohibited from publishing for 48 hours in retaliation for continued distribution of censored articles.

Harassment of La Prensa personnel also continued. Following the murder of a regional vendor of the paper in September, who was killed by unknown assailants after several days of surveillance and intimidation by State Security agents, La Prensa's religion editor, Norman Talavera, was arrested on November 10. State Security raided his home and seized Talavera's personal and professional papers, photographs of Cardinal Obando, personal correspondence, and the family's passports. The home was then placed under constant surveillance. Talavera was taken to State Security prison El Chipote and held until November 15.

Other Civil Opposition

The narrow space for political activity to which Nicaragua's civil opposition has been confined diminished even further over the last 90 days. While the Sandinistas have continued to rely largely on arbitrary arrest and interrogation as the primary means of intimidation, the use of overt force and the threat of force to ensure compliance has become more prominent. More important to the long-term success of the totalitarian model being imposed by the regime is the use of nearly unfettered state power to control or confiscate the material resources essential to effective democratic dissent, and the revision or promulgation of laws to provide the legal basis for incapacitating it.

Included among the thirteen substantiated cases of political murders reported to CPDH in 1985 was an incident involving the brutal assault on two Social Christian Party youths in November, in which one boy was severely injured and the other tortured and killed. After resisting military impressment, the two boys were taken away by force in a military vehicle. According to press reports and a complaint filed with CPDH, the family inquired the following day about the boys' whereabouts, and was told by military authorities that they had been shot while attempting to escape. One of the boys was later found, unconscious and badly beaten. Two days later, on November 11, the decomposing body of the second boy was discovered. His murderers had cut out his tongue, gouged out his eyes, and slashed his stomach.

In another case, four men aged 22-29 were killed after having been arrested on November 10 on what their families insist were trumped-up charges of assault and possession of illegal weapons. According to relatives, Ivan Enrique Garcia Lopez, Denis Jose Sanchez Gutierrez, Julio Alberto Lopez Lopez, and Wilmar Jose Navarro Garcia had refused induction prior to their arrest. Although an attorney stated that he had visited the four at the Palo Alto Prison on November 22, and a morgue employee claimed that the bodies were delivered on the evening of November 22, a Ministry of Interior Communique issued November 25 stated that all four had been killed that day in a shoot-out.

The majority of the remaining incidents reported by opposition sectors involved the use of arbitrary arrests, detentions of varying lengths of time, and interrogation; the conduct of armed raids on organizational offices and search and seizure of documents and property; and the banning of institutions and organizations as illegal.

In addition to the arrests previously mentioned, some forty-five persons active in the civil opposition were arrested or summoned for interrogation during this period. Among those arrested were members or employees of the Social Christian Party, Independent Liberal Party, Conservative Party, Superior Council of Private Enterprise, Cattlemen's Association, Union of Parents of Catholic School Children, Confederation of Professionals, Nicaraguan Private Development Institute (INDE), Nicaraguan Cotton Growers' Association, Social Christian Workers Front, Nicaraguan Workers Federation, and Lidia Maradiaga Peasants Trade Union. Lino Hernandez of the CPDH estimates that over 300 members of the opposition were interrogated between October 15 and mid-December.

The Sandinistas in November also summoned for interrogation Nicaraguans employed at several foreign missions. Included among those summoned to El Chipote's interrogation center for intense and abusive questioning were sixteen employees of the U.S. Embassy, and others from the Embassies of Venezuela and Honduras. The employees were put through what has now become the normal routine: weighing, measuring, fingerprinting, photographing, and confinement in tiny, dark, airless cells for hours. Some were stripped; some were videotaped. All of them were subjected to interrogations lasting from 6-14 hours, during which they were probed concerning intimate details of their lives, their religious beliefs, and their political sympathies, and threatened with further actions against themselves and their families. They were also warned not to discuss with anyone the details of their detention.

To reinforce psychological intimidation, the Sandinistas have erected a legal structure -- prominent in which is the State of Emergency -- that gives them the authority to carry out virtually any action at will. Refinement of this legal facade appears to be emerging as a favored means of effecting the elimination of the opposition without having to resort to visible force. The monopoly on legislative authority has enabled the Sandinistas to pass laws stripping opposition parties of their legal recognition, and to close down as "illegal" organizations including the Curia Social Services Offices, the Institution for Unity and the Promotion of Democracy, and 12 affiliates of the Confederation of Labor Unification (the Professional Agricultural Workers Union, the Miskito Workers Union, the Dress Workers Union, the Casares Fishermen's Union, the Faustino Martinez Union, an office workers union, and six others not identified in the press report). There are indications that the Nicaraguan Private Development Institute is slated for similar treatment.

On January 27, the Ministry of Interior issued a communique setting forth further restrictions on political activity. Under the new regulations, political parties must notify the police one week in advance of any political "event," giving the time, place, and date, which event will be subject to authorization or denial by the police. All parties not represented in the National Assembly are prohibited from conducting any political activities or issuing any "propaganda" related to the drafting of a new constitution. The new regulations codified a situation already in effect: on January 26 the recognized faction of the Conservative Party, represented in the National Assembly, was denied permission by the police to hold an open meeting in the small town of Caterina to discuss the constitution. Assembly President Carlos Nunez, according to El Nuevo Diario, described the action as an isolated incident, and promised to speak with Interior Minister Borge.

The Sandinistas have also used FSLN-devised legislation to expropriate enterprises and lands from political enemies. In the latter case, existing legislation has proven inadequate to the task of completely crippling the private sector. As a result, Daniel Ortega proclaimed on January 11 that the Agrarian Reform Law had been substantially revised. Explaining that the revisions had been made to avoid an appearance that the regime was "disrespectful of the law," Ortega announced that in future there will be no limit on the size of farms that can be confiscated. (Under the old law, farms under 1500 manzanas were immune from confiscation.) Now, any farm can be taken provided only that the confiscation is of some "social utility" or is in the "public interest." While the earlier law had made it possible to move against political opponents, even those whose lands were highly productive, the new version provides the regime unlimited powers of political retribution. According to Ortega, however, not everyone need worry. Those who "behave patriotically, who are not counterrevolutionaries, and do not support the counterrevolution's activities" are not at risk. Others are thus clearly forewarned, and it is generally accepted within the private sector that the coming months will see many in the opposition dispossessed of their holdings.

HUMANITARIAN ASSISTANCE
FOR THE NICARAGUAN DEMOCRATIC RESISTANCE

In its first five months of operation, the Nicaraguan Humanitarian Assistance Office (NHAO) has obligated $16.4 million of the $18 million made available to date for humanitarian aid to the Nicaraguan democratic resistance. With submission of this report, the final $9 million tranche of funds approved through 3/31/86 becomes available. Expenditures continue to be guided by the criteria set forth in the legislation, as clarified by subsequent expressions of Congressional intent (see below).

During the reporting period (November 1, 1985, through January 31, 1986), NHAO has continued to conduct operations in the same manner as described in the first Presidential Report to Congress (dated November 6, 1985) and with only a slightly increased staff. However, the pace of disbursements accelerated as the staffs of NHAO and the United Nicaraguan Opposition (UNO) first developed and then gained experience with effective modalities for the provision of aid through NHAO.

NEW PROGRAMS

As indicated in the statistical summary, the overwhelming percentage of assistance to the democratic resistance continues to be in the form of food, medicine, clothing, equipment and transportation. However, there are three new programs worthy of special mention.

A. Human Rights Commission

NHAO began in December 1985 to fund UNO's newly-created Human Rights Commission (UNO/CDH). The objective of UNO/CDH is to defend and promote human rights, with particular emphasis on their protection during armed conflict. UNO/CDH will train UNO forces in a code of conduct, will investigate and monitor punishment of derelictions, and will also monitor and expose violations of human rights committed by the Sandinistas. This program is being directed by one of UNO's principal leaders, Arturo Cruz, assisted by Ismael Reyes, former head of the Nicaraguan Red Cross.

UNO/CDH has submitted to NHAO a budget projecting expenses of approximately $950,000 during the period January - June 1986. To date, NHAO has provided $125,000 in start-up money for this undertaking.

B. Medical Care Facilities

In addition to paying for pharmaceuticals and other consumable medical supplies, NHAO is providing funding for longer-term treatment in the United States of seriously wounded combatants requiring restorative surgery. This assistance takes the form of payment of hospital and doctors' bills and maintenance of a hospice (capacity approximately 15 persons) for patient lodging during the period of treatment and rehabilitation. NHAO made a separate grant to the Fundacion de Nicaragua, a Miami-based non-profit organization, to administer this program.

NHAO has also funded the enhancement or expansion of several UNO medical clinics within the Central American region, where the vast majority of UNO's medical needs are met. These funds cover construction costs, salaries of health-care personnel, and the purchase of medical equipment such as X-ray machines and refrigerators to store perishable pharmaceuticals.

C. Vehicles

During the initial phase of its operations, NHAO abstained from funding the purchase of vehicles (trucks, boats and aircraft) because the theoretical potential for dual use (to transport both humanitarian and lethal supplies, for example) could lead to controversy over compliance with the legislative guidelines. NHAO recognized nonetheless that without effective means of transport, NHAO-purchased supplies might not reach and thus could not serve their intended recipients. In light of this dilemma, the Department of State suggested to the Congress in November 1985 that the Intelligence Authorization Act for 1986 specifically provide that appropriated funds could be used for the purchase of vehicles. The conference committee chose, instead, to clarify NHAO's authority in the following statement:

> The conferees note that they considered authorizing the intelligence agencies to provide transportation equipment to the Nicaraguan democratic resistance, but determined not to authorize funds for such equipment because the Nicaraguan Humanitarian Assistance Office established by Executive Order 12530 of August 29, 1985, pursuant to the International Security and Development Cooperation Act of 1985 (P.L. 99-83) and the Fiscal Year 1985 Supplemental Appropriations Act, already has the authority to provide transportation equipment as part of the humanitarian assistance program, and the provision of such equipment is not precluded by the definition of humanitarian assistance contained in those Acts so long as no modifications are made to the equipment designed to be used to inflict serious bodily harm or death. (Emphasis added.)

On this basis, NHAO has begun to consider requests for funding the purchase and maintenance of small trucks, boats and aircraft, provided their primary and predominant use is the delivery of humanitarian assistance commodities or the transport of the wounded, and provided no modifications designed to inflict serious bodily harm are made to such equipment. These conditions have been discussed in detail with the UNO leadership, which has fully accepted them, and been inserted in all grant documents pertaining to the purchase, maintenance and use of such vehicles.

OVERSIGHT AND CONTROL

A. By the State Department's Inspector General

In October 1985, the Inspector General of the Department of State initiated a two-week, informal audit of NHAO's operations and procedures, culminating in a report on November 8, 1985. The audit concerned itself primarily with the adequacy of NHAO's procedures for ensuring that assistance not be diverted for unauthorized purposes.

The audit report approvingly noted NHAO's adoption of operating procedures and controls similar to those used by AID disaster relief programs. However, the report suggested a number of refinements. Citing concerns about NHAO's ability to verify the bona fides of off-shore suppliers and the ultimate end use of supplies procured in both the United States and Central America, the report suggested that NHAO recruit and assign additional personnel to the monitoring function, while continuing to make maximum use of U.S. resources within the region to ensure proper use of NHAO-funded materiel. Finally, the report suggested that NHAO request that UNO develop budget projections for disbursing the balance of the funds appropriated for humanitarian assistance.

On December 20, 1985, NHAO responded to the Inspector General that NHAO concurred with all recommendations; as of the date of this report, they have been fully implemented.

B. By the General Accounting Office

On November 5, 1985, the General Accounting Office (GAO) notified the Department of State that at the request of the Chairman of the House Foreign Affairs Subcommittee on Western Hemisphere Affairs, GAO was commencing a review and audit of NHAO operations. Representatives of GAO, NHAO and the State Department met on December 6, 1985, to discuss audit procedures; the audit has been in progress since that date.

TRANSPORTATION PROBLEMS

In mid-October 1985, a flight from the United States containing NHAO-purchased supplies was forced to return from the region without discharging its cargo. (This episode was included in the first report under the heading "Delivery Incident.") From that time, UNO's previously existing arrangements for the delivery of U.S.-sourced supplies to the region were suspended. NHAO has worked with UNO to devise alternate delivery arrangements, but to date has achieved only limited success.

One result of this development is that UNO has been obliged to rely more heavily on supplies purchased within the region than would otherwise have been the case.

SUMMARY OF GRANTS

NHAO Grants

1. Program Grants (to be disbursed through letters/memoranda of commitment, except Project Hope and Fundacion grants [see below])

Grant 601 (UNO) (issued 10/3/85)	$1,000,000
Grant 602 (UNO) (issued 10/15/85)	$1,500,000
Grant 603 (UNO) (issued 10/29/85)	$3,000,000
Grant 604 (UNO) (issued 11/11/85)	$3,000,000
Grant 605 (Fundacion de Nicaragua) (issued 11/13/85)	$1,000,000[a]
Grant 606 (UNO) (issued 12/23/85)	$3,000,000
Grant 607 (Project Hope) (issued 12/02/85)	$3,750,000[b]

2. Administration Grants

Grant 641-001 (UNO Washington) (issued 10/17/85)	$ 50,000[c]
Grant 641-002 (IDEA, Inc.) (issued 11/06/85)	$ 50,675[d]

3. Direct NHAO Obligations

Grant 632-001 (Butler Buildings) (issued 12/23/85)	$ 28,000

TOTAL..............$16,378,675

NHAO Commitments

1. Against Program Grants through 1/31/86

Humanitarian Assistance..................$14,131,860

Medical	$5,111,180	(36.2%)
Food	$3,665,589	(25.9%)
Clothing	$3,064,254	(21.7%)
Equipment	$1,399,747	(9.9%)
Transport	$ 766,090	(5.4%)
Human Rights Program	$ 125,000	(0.9%)

2. Against Administration Grants through 1/31/86

Administration Commitments...............$ 100,675

UNO Liaison Office	$ 50,000
IDEA, Inc.	$ 50,675

TOTAL NHAO COMMITMENTS...........$14,232,535

In-House NHAO Administrative Expenses through 1/31/86

NHAO Administrative Expenses.............$ 66,953

Direct Personnel Costs	$ 33,286
Office Rent	$ 14,667
Travel	$ 14,000
Telephone toll calls	$ 3,000
Miscellaneous	$ 2,000

Notes

a. The program grant to the Fundacion de Nicaragua funds longer-term care in the U.S. and UNO's medical staff in the Central American region. At least initially, support for UNO's human rights program is also being channelled through the Fundacion.

b. Using information provided by NHAO staff, Project Hope produced a comprehensive program to meet both emergency and on-going health care supply needs. Pursuant to that program, the grant to Project Hope funds the purchase within the United States of pharmaceuticals and medical equipment.

c. The administration grant to UNO's Washington office stipulates that its activities must be strictly limited to providing liaison between UNO and NHAO so as to facilitate the flow of humanitarian assistance. This grant permits UNO to receive a cash advance to cover administrative expenditures, which must be documented and justified to NHAO before further cash advances are made.

d. The administration grant to IDEA, Inc. funds administrative support services, including assistance to the regional medical program and to KISAN (the Indian/Creole component of UNO).

SOURCE OF FUNDS

Mr. **Chappell**. Mr. Abrams of the State Department has notified the committee that he will be a few minutes late. Therefore, we will now proceed with the testimony of Mr. Clyde O. Glaister, Deputy Assistant Secretary of Defense for Program/Budget on the source of funds.

The committee is informed that the Department of Defense's proposal is to use $100 million taken from the ammunition accounts of the Army, Navy, Marine Corps, and Air Force, as the source of funds for this $100 million proposal.

We will place a listing of the sources in the record at this point.

[The list follows:]

Appropriation/Item	*Millions*
Procurement of ammunition, Army FY 86/88: 105mm HEAT MP T cartridge, Army (M456A2)	30.0
Other procurement, Navy FY 86/88:	
2.75-inch rockets	11.5
General purpose bombs	20.0
Subtotal	31.5
Procurement, Marine Corps FY 86/88: 155mm ammunition	3.5
Other procurement, Air Force FY 86/88:	
30mm API	29.1
CBU-89 (TMD/GATOR)	5.9
Subtotal	35.0
Grand total	100.0

AMMUNITION AS A SOURCE

Mr. **Chappell**. Who decided to use ammunition funds and why?

Mr. **Glaister**. Mr. Chairman, the original understanding was that the focus of our attention on this matter would be on the contra aid side, the request from the President to make the money available. The sources really didn't become a subject of discussion or debate until Thursday of last week.

I personally made a recommendation to the Comptroller of the DOD that we use ammunition sources for a number of reasons.

First of all, the $100 million is to be split $30 million for humanitarian assistance and $70 million for military assistance. The bulk of the military assistance will be for small arms and ammunition.

Although it is not intended to be a drawdown, it appeared logical to use the ammunition account in the Army and the other procurement accounts in the Navy and the Air Force.

I met with the Service Budget Officers and discussed it with them. They agreed and I made a recommendation to the Comproller of the Department of Defense who agreed.

On Thursday afternoon, this committee requested the offsets and without taking the matter further, I provided them to this and other interested committees.

The Secretary of Defense was not aware of the offsets, the specific offsets until this morning when I advised him.

Mr. **Chappell**. This Committee has long had a policy against reprogramming ammunition funds. Since Nicaraguan assistance is of such importance to the President, why did OSD select a source of funds which was known to be a problem with this Committee?

Mr. **Glaister**. Mr. Chairman, as you know, there was considerable reduction in the 1986 President's defense request, first $24 billion in the normal process and $11 billion in the Gramm-Rudman process, a total of $35 billion.

I was restricted in some manner by the magnitude of the cuts in programs across-the-board. I was further restricted in the use of annual money. The money to be made available for this purpose cannot all be obligated at the same time, therefore, it had to be multiyear money.

I couldn't use military personnel or operation and maintenance money and meet that criteria.

FUEL COST SAVINGS

Mr. **Chappell**. But why, for example, could not the funding be derived from cost savings resulting from the continued decline of oil prices?

Mr. **Glaister**. Oil price savings are something that we are looking at very closely. We met as recently as last Tuesday or Wednesday with the Defense Logistics Agency.

As far as fiscal year 1986 savings are concerned, about 57 percent of the fuel for 1986 was procured in the first quarter of the fiscal year. That is necessary for two reasons.

One, the long-leadtime in refining crude into finished product. The Department of Defense buys only finished product, not crude.

The second reason is to avoid a disruption in the flow of the finished product.

We are not yet experiencing hard savings in the purchase of finished products. It is anticipated, if the price remains as low as it is or somewhat close to as low as it is, that there will be savings in the future. However, we do not have specific hard data that indicates that savings have occurred at this time.

IMPACT OF REDUCTION IN AMMUNITION FUNDS

Mr. **Chappell**. What is going to be the impact of this reduction? In two instances it looks like the reprogramming will eliminate an ammunition line.

What impact will this have on the production line?

Mr. **Glaister**. First, as you know, sources of financing are recommended by the Department and in the final analysis the committees determine the acceptability of those sources. In the case of the 105 millimeter, the Army has made a determination that the amounts originally planned are not as effective against heavy armored tanks as was thought.

So they have revised their requirement for the 105 millimeter. However, the funds originally programmed for that item will be needed for replacement at some point in time; I do not know what the replacement might be.

RESTORATION OF FUNDS

Mr. **Chappell**. So you don't have plans for restoration of the reprogrammed funds?

Mr. **Glaister**. It is hoped that the money, the whole $100 million would ultimately be restored to the Department of Defense.

Mr. **Chappell**. But you don't have any plans for that at this point?

Mr. **Glaister**. I don't know.

Mr. **Chappell**. The President's statement says, on page 3, "However, the resulting reduction in the funds available for the Department of Defense will, if not remedied, impair ongoing efforts to restore and maintain the readiness of the armed forces."

Do you agree with that statement?

Mr. **Glaister**. I do. I think any reduction in the defense budget virtually meets that criteria.

Mr. **Chappell**. When would you expect to have a recommendation on restoration?

Mr. **Glaister**. I don't know the answer to that question. The sense of urgency has been associated with the other part of the request, the President's request for the aid.

Mr. **Chappell**. Mr. McDade?

Mr. **McDade**. Thank you, Mr. Chairman.

You have covered my concerns.

Mr. **Chappell**. Mr. AuCoin, we are just on the source of funds at this point. Do you have any questions on the source?

Mr. **AuCoin**. I was unclear what ammunition line is being closed out. That is all I wanted to know.

Mr. **Chappell**. The staff advises me that two lines would be eliminated.

Mr. **AuCoin**. Is it the 105-millimeter cartridge, Mr. Chairman, and the 30-millimeter API?

Mr. **Chappell**. Yes.

Mr. **Dicks**. How are you going to offset the reduction? When are we going to go back and take care of this ammunition account? What is your plan on that?

Mr. **Glaister**. Some of the items were selected based on current inventory levels. Some of the items were based on a need for a tri-service revised procurement strategy.

At this particular point in time there is no timetable for requesting restoration of these funds for the particular items that were selected. In almost every instance we feel we have sufficient flexibility with which to make that decision, the emphasis and priority has been on expediting the President's request.

Mr. **Chappell**. Thank you, Mr. Glaister.

Mr. **Glaister**. Thank you, Mr. Chairman.

INTRODUCTION OF SECRETARY ABRAMS

Mr. **Chappell**. The next witness is Mr. Elliott Abrams, Assistant Secretary of State for Inter-American Affairs.

This is Secretary Abrams' first appearance before the Defense Appropriations Subcommittee, and a copy of his biography will be placed in the record.

[The biography follows:]

ELLIOTT ABRAMS, ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS

Elliott Abrams was sworn in at a private ceremony July 17, 1985 as Assistant Secretary of State for Inter-American Affairs. This is his third post as Assistant Secretary in the Department of State since 1981, and for the third time his confirmation by the Senate Foreign Relations Committee and the United States Senate was unanimous. He succeeds Langhorne A. Motley as Assistant Secretary for Inter-American Affairs.

Mr. Abrams is an attorney who has practiced in New York and in Washington, D.C. He spent four years in the 1970s working for the United States Senate: as Assistant Counsel to the Senate Permanent Subcommittee on Investigations in 1975; as Special Counsel to Senator Henry M. Jackson in 1975–76; as Special Counsel to Senator Daniel P. Moynihan in 1977; and from January 1978 until May 1979 as Senator Moynihan's Chief of Staff.

In January 1981 Mr. Abrams became Assistant Secretary of State for International Organization Affairs. In this capacity he supervised United States participation in the United Nations system.

On December 10, 1981, he was sworn in as Assistant Secretary of State for Human Rights and Humanitarian Affairs, the position in which he continued to serve until this spring, when the President nominated him to head Inter-American Affairs.

Mr. Abrams is the author of numerous essays and book reviews which have appeared in Commentary, The Public Interest, The American Spectator, Policy Review and other journals.

He was born in New York City on January 24, 1948. He received his B.A. degree from Harvard College in 1969, a M.Sc.Econ. in International Relations from the London School of Economics in 1970 and his J.S. from Harvard Law School in 1973.

Mr. Abrams lives in Washington, D.C. with his wife, Rachel, and their three children.

Mr. CHAPPELL. Secretary Abrams will brief the committee on the situation in Nicaragua, the President's aid proposal, and the policy framework on which the aid request is made.

This hearing is closed pursuant to a vote taken in open session last week.

Mr. Secretary, you may proceed.

SUMMARY STATEMENT OF SECRETARY ABRAMS

Mr. ABRAMS. Thank you, Mr. Chairman.

I apologize for having come in a few minutes late.

The U.S. confronts a very significant problem now in Central America, and the purpose of the President's proposal is to begin to deal with it. The problem is that there is now in Nicaragua a government which views Cuba as the appropriate model for behavior in terms of internal repression, freedom of speech, freedom of press and religion, free trade, freedom of expression, and in terms of subverting its neighbors, making itself a base for subversion and terrorism for not just Central America, but countries somewhat further removed.

There are a significant number of instances where we have already seen that kind of support for subversion and terrorism take place.

I would say one major change in the discussion we are having about Nicaragua over the last couple of years is that we pretty well start with this premise. Two or three years ago, the debate was over who are the Sandinistas. I think that debate is over, and I find new people denying that we have a problem there with a communist government. The issue is what do we propose to do about it: how do we propose to handle it.

The President's request, just to describe it very briefly, is for $100 million split 70–30: $70 million in unrestricted funds available to the President for his use through any agency of the government, $30 million in humanitarian funds administered through the current Nicaraguan Humanitarian Assistance Office set up last year.

This proposal, if passed, would be deemed to satisfy and eliminate the various restrictions existing on the President's ability to use an agency of government that he viewed as appropriate.

Should a peaceful resolution to this conflict come within the 18-month period during which this money is available, the money would be available for relief and rehabilitation.

It is for 18 months, the hope being that we could get a certain degree of continuity rather than having to come back to the Hill every six or nine months, not only because it takes a great deal of your time, but because it is important to Central America that there be a sense of commitment and continuity on the part of the United States Government.

We have a negotiating track which I should mention for a moment.

Our idea is not that we should have a military solution to the problem of Central America. It is that the Sandinistas should not have a military solution.

What does that mean? It means that if they are left to their own devices, they are going to have a military solution. Their purpose is to crush the resistance, internally and externally. ———.

We don't believe there is any inconsistency between pursuing Contradora and asking for this request. We think unless we can put this kind of pressure on the Sandinistas, there will be no meaningful negotiations.

Why should they compromise if we are willing to turn away from this and they can crush the opposition, then the opposition doesn't bring any cards to the table, and neither do we.

The proposal says that we will report back to you every 90 days and that the money would be phased in over the 18-month period rather than being given as a lump sum at the start.

[CLERK'S NOTE.—Classified discussion removed.]

Mr. CHAPPELL. So that we understand exactly what kind of assistance we are talking about, the wording used in the President's request says "for any kind of assistance" he deems appropriate.

Can you elaborate on that?

Mr. ABRAMS. Yes. ———.

Mr. DICKS. Is this how we handled it with Marcos?

Mr. ABRAMS. Marcos is not a communist.

Mr. DICKS. All of a sudden he has all this cash. Is it the same procedures? We don't know what we are doing and how we are buying?

Mr. ABRAMS. This program has spent $18 million and was audited by GAO. I ask you to look at that and see if they come up with money traceable but not used, and I don't think you will find any.

[CLERK'S NOTE.—Classified discussion removed.]

Mr. MCDADE. Where would the record demonstrate that, from the standpoint of the Contadora Government and other governments? Is there a forum where they went on record that way?

Mr. **Abrams**. We can get for the record the statement two or three weeks ago by the Foreign Minister of Argentina, a public statement about this question. I think you will search the public record long and hard to find that kind of statement.

[The information follows:]

ARGENTINA

CAPUTO SEES NEED FOR DEMOCRATIC NICARAGUA

PY110239 Buenos Aires Noticias Argentinas in Spanish 1810 GMT 10 Jan 86.

[Text] Buenos Aires, 10 Jan. (NA).—Foreign Minister Dante Caputo said today that it would be dangerous if the Contadora Group decided to suspend its negotiations, because this could cause an escalation of military actions that could "strike the spark in Nicaragua." Caputo made these statements about this Central American country shortly before leaving early this afternoon for Caracas, where he will attend a meeting of the Contadora Group and the governments of the region that support the peace-keeping negotiations carried out by this organization.

At Ezeiza Airport, Caputo stressed that "Nicaragua must be Latin American," because "if that country, in one way or another, continues to be beachhead or political base of the Eastern Hemisphere or its allies in Latin America," it would lead to "an irreconcilable situation." Caputo said Nicaragua's request for a recess of the Contadora Group's negotiations "could represent a dangerous measure," because "the conflict continues, and the conciliating mechanism could prevent a military escalation."

He added that "we would be removing the barrier that prevents the fire from spreading to Nicaragua." Therefore, "the Contadora Support Group is going to try to find a way to avoid leaving this problem without diplomatic support." The foreign minister also said that the Nicaraguan conflict "is not alien or remove to the Argentine people," adding that "in addition to the solidarity we should feel for our Latin American brothers, there are internal reasons" to support the Contadora Group.

Caputo added: "I think if war broke out all our countries would be shaken by demonstrations, radicalization, or polarization." He explained that "this would allow the intervention of the superpowers, who will find an excuse for harassment in these countries."

Caputo then said that Argentines "have many problems and many domestic issues to overcome, and we do not want foreign problems in addition to our own." The foreign minister stated that "we would never unfurl the flag of the Marxist-Leninist regime" and that "there is no reason to doubt the political leaning of our government."

Caputo said: "We aspire to pluralistic American democracies, where human rights, individual rights, freedom of religion, freedom of press, freedom of politics, and the freedom to unionize are respected." He added "It is indispensible that Nicaragua be Latin American and enjoy a full democracy." The Argentine minister stressed that "to get straight to the point," the only solution is for "Nicaragua not be a political beachhead of the Eastern Hemisphere and its allies in Latin America, because this would lead to an irreconcilable situation." He said that "what we are going to do is convey the greetings of the Argentine people" to the Nicaraguan Government.

Caputo said: "We are going to talk with the new authorities and express our hope that democracy will continue to expand in Latin America. This is a unique development in our region, because there have never been so many democratic regimes as there are now."

The pacifists' arrival would have coincided with the demonstration prepared by the Mutual Support Group of Relatives of Missing People now seeking the support of housewives, laborers, union members, and workers at large, as well as that of secondary and university students, who have been invited to express their problems during a demonstration.

Today several political sectors also made pronouncements regarding the scheduled arrival of the marchers for peace. According to the immigration director, the government's stance is final: Either the marchers have their papers in order or they will not enter.

A National Liberation Movement (anticommunist right) spokesman praised the measure immediately and said that movements such as the March for Peace are nothing but propaganda activities of extremists' "puppets" groups.

Mario Solorzano Martinez, Democratic Socialist Party secretary general, criticized the government's stance, describing it as something "absurd" that ruins all that

Guatelmala has gone to remain neutral in the domestic conflicts of other peoples of the region.

At any rate, as the trip has been suspended, it remains to be seen whether the marchers will be able to carry out activities in Guatemala.

REPRESSION IN NICARAGUA

Mr. McDade. You started to elaborate on internal indices that show Nicaragua's character as a repressive society. Would you elaborate on that?

Mr. Abrams. We can take the various measures, freedom of speech, freedom of press. Let's start with October 15th. On October 15, 1985, the Sandinistas declared a state of emergency which formally suspended freedom of speech, freedom of the press, the right to strike, the right to organize, and the right to habeas corpus.

Press—there is one source of independent information left in Nicaragua—La Prensa, a newspaper heavily pressured by the government. It comes out often with half the front page empty.

Freedom of speech is very difficult because there are disappearances and arrests; human rights is getting worse. A group of human rights advocates was there a couple weeks ago. They were amazed. They knew it was bad, but they didn't know about the secret prisons and the torture.

Freedom of religion—as in every communist country, there is a strong effort to destroy the church. Enemy number one for the Sandinistas is the Cardinal, whom they attack, calling him a traitor.

He is concerned for his own personal security at this point.

Foreign priests who work with the Cardinal have been thrown out of the country. Only the far left priests are permitted to come in.

They are building a rival church, the "peoples' church." The cardinal is not permitted to hold outdoor mass because they don't want people to have the ability to show support.

He is not permitted to deliver the homily of the mass over the radio because they don't want any independent voice able to speak to the people of Nicaragua.

Labor unions are being crushed, and this information can be verified by the AFL-CIO.

The education system has been perverted into a kind of a brainwashing system in which Cuban educators give advice as to how the education system should really work. It is heading toward the Cuban model, and there is one good result: People are flocking to the resistance forces, people who were part of the Sandinista junta in 1970 and 1980.

The civil liberties situation in Nicaragua has been going from bad to worse. I think these human rights groups who have just been down there are testifying to that.

Mr. Chappell. Have they gone to the traditional elimination of other political parties?

Mr. Abrams. They have the Sandinista party itself. It says that it is a Marxist-Leninist Party. Usually they wait a while before they declare themselves a communist party. This just happened in 1985 in Ethiopia. The Workers' Party changed its name to the communist party, and I have no doubt that we will see that come in

Nicaragua, too, because it is part of the usual pattern, and they are following the usual pattern of development starting with the most important single thing, the Secret Police.

These are the actual organs of political control, and they have, with Cuban advisors, set up this elaborate Secret Police mechanism.

Mr. **McDade**. What about terrorism and exporting terrorism? Is there evidence of that as well?

Mr. **Abrams**. We will get into that later.

NEGOTIATIONS

Mr. **McDade**. When was the last time there was a diplomatic exchange in the nature of negotiation between the United States and Nicaragua?

Mr. **Abrams**. December 1984 was the last bilateral meeting at Manzanillo, the last of nine. They have an ambassador here and we have an embassy in Managua. There is no lack of exchange at varying levels from time to time, but that was the last of the two-party talks.

Mr. **McDade**. What about the Contradora countries with respect to Nicaragua? When was the last time they were engaged positively——

Mr. **Abrams**. They are currently engaged in a series of talks. The Contradora countries recently met in Uruguay. There was a meeting in Venezuela in December. So that is an ongoing process, it just hasn't produced results in terms of Sandinista behavior.

TYPE OF GOVERNMENT

Mr. **McDade**. I am curious about what would appear to be kind of a government in exile or a provisional government in Nicaragua. We have some papers in front of us entitled "The United Nicaraguan Opposition, Principle and Objectives for the Provisional Government of National Reconciliation."

Have you seen that?

Mr. **Abrams**. Yes.

Mr. **McDade**. What is it?

Mr. **Abrams**. That is not what they are calling themselves now. They do not view themselves as government in exile. They were asked what are you for.

Mr. **McDade**. Who is "they?"

Mr. **Abrams**. By far the largest opposition group is the United Nicaraguan Opposition which is a group led by three men, the three who met with the President yesterday, Cruz, Robelo, and Calero, all three of whom were opponents of Somoza. Cruz and Robelo were in the Sandinista junta in the beginning because of their reputation as democrats.

The organization has a variety of several armed forces associated with it, and we have been trying as a matter of policy to promote unity under the umbrella of UNO.

Mr. **McDade**. It is in no sense a provisional government?

Mr. **Abrams**. They don't view themselves that way. This was a plan for what they would do if they became the Government of

Nicaragua. They are not trying to set up a government in exile, a shadow cabinet.

Mr. **Young**. Would the gentleman yield?

Where is Pastora in the scheme? He is not part of UNO.

Mr. **Abrams**. ———.

Mr. **Young**. OK.

Mr. **McDade**. Thank you, Mr. Chairman.

SOURCE OF FUNDS

Mr. **Murtha**. Everytime DOD wants to reprogram or anything, they come for ammunition which this committee has never approved and I don't know why they keep coming here for ammunition to the be reporgrammed because we are not going to reprogram that money from ammunition period.

I don't know why they insist on trying to get the money out of ammunition which we have had such a hard time building up.

Is this a special access session?

Mr. **Chappell**. When we get through this round, we will go to special access.

Mr. Young?

Mr. **Young**. Mr. Chairman, I prefer to wait for the special access session.

Mr. **Chappell**. Mr. Dicks, do you want to wait?

CONTRAS MILITARY SITUATION

Mr. **Dicks**. No.

How effective has the Contra military operation been up to this point? It is my understanding they don't control a single city or a single area of the country.

Mr. **Abrams**. They do not control territory in the sense that they have a liberated zone in which the Sandinistas cannot enter. I met yesterday with Russell Means, the American Indian leader who has been to the Miskito areas of the Atlantic coast.

Mr. **Dicks**. Do you have a map of the area?

Mr. **Abrams**. He maintains that the Indians are largely in control of the entire coastal area, especially the Misura areas, which are in the purple here.

He maintains that they are—it is not that the Sandinistas can't go in with a convoy—but he was able to move freely in the area by night and day. He entered it by day, and he says there is a large measure of control on the part of the Indians.

Politically I think what the Contras have done is they have kept the pressure off Duarte and prevented the full consolidation of the communist regime in Nicaragua. They have kept them off balance.

Now, the question is whether they can force them to compromise on their political objectives.

Mr. **Dicks**. I understand that there is not much popular support for the Contras in the country. This operation has been going on now for three or four years. What examples can you show us of people living in the country coming to the aid and assistance of the Contras?

Mr. **Abrams**. I will give you an example.

Mr. **Dicks**. We don't have an example like we say in the Philippines where people went on the streets and got involved because they believed in what happened there.

Mr. **Abrams**. We have a piece of information recently from a resistance commander who had been deep inside Nicaragua and who had not been supplied in months and months, and he said we haven't had any trouble eating and we haven't had any trouble knowing where the Sandinistas are because the people support us and they help us.

I think the people are helping the resistance in every way they know how. They are volunteering to fight and die against Soviet helicopters. This is a volunteer force willing to go in without military help from the United States and fight a Soviet-Cuban force in Central America.

When they are in Nicaragua they get tremendous support from the people.

Mr. **Dicks**. When you say Soviet-Cuban force, how many Soviet advisors, how many Cuban advisors are involved?

Mr. **Abrams**. We will get into the numbers in the next session.

Let's just remember something about the Philippines and something about Hungary. When communists have people stand up in front of tanks, they roll right over them. How can you ask the people of Nicaragua, when we have not made a full commitment yet to help them attain freedom, how can you ask them to stand before those Cuban-Soviet tanks? They will roll right over them.

This is not Marcos, not a pro-Western government. This is a communist government. It is a little much to ask people to stand up and get their heads blown off. It is amazing that 25,000 are ready without our commitment to help.

Mr. **Dicks**. We have 25,000 people out there, but they don't control one city in Nicaragua.

After all this effort, it is hard for me to understand how they don't control a single city. There has to be a reason

Mr. **Abrams**. There are 6,000 to 7,000 of them in Nicaragua, not 25,000 because they don't have the supplies to be able to field a force of 25,000 in Nicaragua. We are telling them to go up against the communist advisors and tanks and helicopter gunships with no military assistance from us. How can they do that?

If they try to hold territory now, those tanks and helicopters come in there and try to take it back. It is suicidal for them to try to hold territory right now. I think you are premature in asking them to try to hold territory.

Mr. **Dicks**. How many years has this covert activity gone on?

Mr. **Livingston**. Will the gentleman yield?

Mr. **Dicks**. I would be glad to yield to my colleague from Louisiana.

Mr. **Livingston**. I thank the gentleman.

It strikes me that it is very easy to second guess these guys and say, "Why don't you make a better fight of it," and at the same time support the Boland amendment which has stripped us of the ability to support them.

The two are contrasting ideas.

Mr. **Dicks**. The question that I am trying to get to is whether there has been any example, any example of a popular uprising in support of the Contras, whether they do have in the country some broad-based political support that might yield to a successful operation.

What I am worried about is that if we continue to put the military pressure on, that all we do is drive the Sandinistas completely into the hands of the Soviets, the Cubans and the Eastern Block countries.

I am sure that is where they are, but I wonder if this policy is going to achieve much if we just keep a force there that doesn't seem to have popular support. I don't think you could do this without popular support.

Mr. LIVINGSTON. What is the alternative?

Mr. ABRAMS. I think there is massive popular support.

Mr. DICKS. Why don't we see it?

Mr. ABRAMS. Go to the Philippines. The NPA has been in business for 20 years and we know what a menace it was and that it has had lots of popular support because of Marcos' dictatorship, and they have never held a city. The people of Czechoslovakia or Hungary or Poland or Bulgaria, they don't want communist governments either, but it is very difficult to stick your head up and get it shot off.

This is a place where if you oppose them the tank is likely to roll over you. We have not given them the commitment that we are willing to help them that would lead a lot of people to move off the fence.

We took the position that Marcos wasn't inevitable as dictator forever and, if we take the position that the Sandinistas are not inevitable either, I think you will see Nicaraguans saying, "If you are willing to help, we are willing to fight."

I am amazed that this many people are willing to go in there and get their heads blown off without that commitment from us.

[CLERK'S NOTE.—Classified discussion removed.]

Mr. DICKS. Do we have this version?

Mr. ABRAMS. If you look at page 30 in the report I have, it breaks it up. $5 million medical, $3.5 million food, $3 million clothing, $1.4 million equipment, $750,000 transport, $125,000 human rights program. That is through the end of January.

As you see, the largest is medical care, and that includes giving them things like pharmaceuticals and bandages to carry with them: payment for medical care in Florida and in Central American countries, to treat the injuries of the severely wounded combatants and the second and third categories are food and clothing. It is fairly logical.

I think you would probably expect it to have been spent more or less that way. Could I ask Mr. Helgerson to point out what the maps show about support within the country?

Mr. DICKS. Sure.

Mr. HELGERSON. I am backing into my briefing, and I won't steal my thunder except that I worry Members have other commitments and may need to leave.

[CLERK'S NOTE.—Classified discussion removed.]

Mr. CHAPPELL. Do we have other questions before we go into the restricted session?

Mr. MCDADE. I have a couple.

Mr. Chappell. Just hit the edges of it.

Mr. Dicks. Thank you, Mr. Chairman.

Mr. Chappell. Mr. Miller.

Mr. Miller. I just have one question, Mr. Chairman, and that is on the issue of popular support. Is it correct to assume that the simple survival of the Contra forces must mean that there is popular support, that the people within the communities are feeding them and are not betraying them? Can we assume that they must have some support or they would all be disbanded or captured?

Mr. Abrams. I think it is logical to assume that, and that has not been the problem. The problem is not the relationship to the population; they have good relations with the population. It is universally acknowledged that the most popular guy in Nicaragua is the Cardinal. One of the reasons the public supports the opposition is these attacks on the Cardinal. It is a very Catholic country.

Mr. Chappell. Mr. Livingston.

Mr. Livingston. Thank you, Mr. Chairman.

Mr. Chappell. Before you start, let me make one comment. When we passed Gramm-Rudman, I suspect there was a great deal of sentiment in the House, and a good deal of support in the Senate for considering everything across the board. Yet when the vote came on those issues, such as, leaving social security in for example, although there was a lot of sentiment for it, there weren't many who wanted to hold that ground.

Wouldn't that be like these poor guys? They have the sentiment, but they don't feel they have the power or ability to do anything about it. This means there is no way they can come out and vote and take that position.

Mr. Abrams. I think that is a good description of the problem in Nicaragua. How do you translate this overwhelming popular dislike of the Sandinistas?

NEGOTIATIONS

Mr. Chappell. Excuse me, Mr. Livingston.

Mr. Livingston. Mr. Secretary, it is a good thing you are where you are and I am where I am, because I couldn't do your job. I envy your patience. There is a common question—Mr. Dicks might be interested in this—that some people in this country take the position that after all, why should we help the Contras militarily when we gave them humanitarian assistance last year, $27 million worth, and besides that, the Reagan Administration isn't really serious about negotiating with the Sandinistas anyway.

We haven't negotiated in good faith with them. Those two points are made by critics.

What is your response?

Mr. Abrams. On the negotiating point, we sure have tried. Most recently we made them another offer, another concession if I can put it that way. Our position has been we will not go back to Manzanillo and talk to the Sandinistas until they have agreed to sit down with the opposition groups and that dialogue is serious. We dropped that position at the February 10 meeting that Secretary Shultz had with the eight foreign ministers. We said, "OK, we will make this concession. We will do it simultaneously. If you guys can bring the Sandinistas to the table with the opposition, Duarte has met with is opposition, Bettancourt has sat down with his opposition, bring the Sandinistas to the table and we will go back to Manzanillo."

Mr. LIVINGSTON. If we don't provide aid for the Contras, will there be incentive for them to negotiate with the opposition?

Mr. ABRAMS. No. Why should they compromise on any issue unless there is pressure on them to do so?

EL SALVADOR

Mr. LIVINGSTON. Have we been successful in El Salvador and why, quickly?

Mr. ABRAMS. We have been successful in El Salvador. We have been successful in maintaining or gaining and then maintaining fairly good bipartisan support for policy. The most controversial thing is military aid.

The question was, should we give military aid to the Duarte government, and military aid has allowed the democratic government there to solidify itself against the guerrillas and turn the tide against the guerrillas.

Economic aid is nice; so is humanitarian aid. But when you are up against communists, whether in the government or out, in both cases armed from outside, economic aid or humanitarian aid just isn't enough.

Mr. LIVINGSTON. Without both economic and military aid in El Salvador, would we have succeeded?

Mr. ABRAMS. No, you would have a very popular president in Duarte and an unpopular communist insurgency fueled by Nicaragua, which he would be unable to cope with without the military support that we are giving.

Mr. LIVINGSTON. Has the aid to El Salvador promoted jealousies among other Southern American countries?

Mr. ABRAMS. ———.

Mr. LIVINGSTON. How much did we give El Salvador last year?

Mr. ABRAMS. Economic aid was $315 million, of which ESF was $195 million, if I remember right.

Mr. LIVINGSTON. $315 million?

Mr. ABRAMS. In Economic Support Fund Aid.

Mr. LIVINGSTON. In economic aid alone, we spend———

Mr. ABRAMS. It is about three to one, so it would be $136.25 million in military.

Mr. LIVINGSTON. How much are we giving for Honduras?

Mr. ABRAMS. Less, but I don't have the figure in my mind. Significantly less.

Mr. LIVINGSTON. As a matter of fact, at one point we actually zeroed out the military construction budget. In fact, it may still be zero.

OPINION POLLS

Mr. ABRAMS. I would add a further thing. We do have polls about opinion in Central America, and they are scared to death of the Sandinistas and what that regime means for the future of democracy in their countries.

Mr. LIVINGSTON. I introduced that Gallup poll taken there in the last six months into the record in the last two weeks, and it is available in the Congressional Record. It shows that the average rank and file person fears the Soviet base in Nicaragua, does not like the Nicaraguan Sandinista government, and doesn't mind U.S. interventionism as long as it keeps the area free.

Mr YOUNG. Is there anything in the American press about that Gallup poll?

Mr. LIVINGSTON. No, the American press totally neglected it.

Mr. MURTHA. Where was the poll taken?

Mr. LIVINGSTON. Costa Rica, Honduras, Guatemala, and El Salvador.

Mr. MURTHA. Who authorized or paid for the poll?

Mr. LIVINGSTON. Gallup took it. I am not sure who paid for it.

Mr. ABRAMS. Latins are all opposed to U.S. intervention in Latin America. But there is one thing that worries them more and that is Soviet intervention. When we were in Grenada, the nine prime ministers the President met with there raised the issue and said we want no more Communists beachheads in the Caribbean Basin. I think they are aware of the fact that this is a Communist beachhead, and we are going to have to help cope with it because they are not strong enough. If it is a Latin problem only, they don't want us meddling. But a Soviet beachhead is a security problem for us and one that is bigger than any Latin American country can handle.

Mr. LIVINGSTON. If we are giving close to $445 million in economic and military aid to El Salvador and we approve $100 million in economic aid and freedom fighters in Nicaragua, how much would Honduras need to keep them stable?

Mr. ABRAMS. I think that in fact the Hondurans would be happy at continued American support and increased American support for the Nicaraguan assistance. They are next on the line, and the worst thing we could do would be to indicate to the people in Honduras that we are not in the fight per se, that we are going to pull out and leave them facing the Sandinista Army.

Mr. DICKS. Could we build up because of our support for the Contras?

Mr. ABRAMS. President Carter asked for the cutoff——

Mr. LIVINGSTON. Did the gentleman yield?

Mr. DICKS. I just interjected.

Mr. ABRAMS. I think is is hard to argue that the Sandinistas have been pushed in that direction, because under President Carter they seemed to be jumping in that direction without much prompting from anybody.

CONTADORA PEACE EFFORT

Mr. DICKS. Would the gentleman yield?

Here is a paragraph saying the Contadora peace effort began by Latin initiatives in January 1983 and nearly succeeded in 1984 when Nicaragua accepted a document that other involved countries had already approved.

In return for an end to the attacks by the CIA-backed forces, Managua offered major security concessions such as cutting their military forces, sending home Cuban and Soviet advisors and freezing arms acquisition.

This was nullified by the Reagan Administration which quickly pulled strings to get Honduras, Costa Rica and El Salvador to back out of the agreement. The reason was that the Contadora plan would not only have ended Sandinista involvement, but also shut down the Administration's favorite little war.

How do you handle that?

Mr. **Abrams**. If you had read and said where did it come from, I would have said The Boston Globe.

Mr. **Dicks**. Yes.

Mr. **Abrams**. It is wrong. Not so. There was a draft on September 7, 1984 of the Contadora treaty, and it had zip in it for verification.

Sandinista promises, we know, are worthless. We have said from the beginning, and the Central Americans agree, that the name of the game is verification. Words are useless. Who is going to verify it.

In September 1985 came the fifth draft of the Contadora treaty.

Mr. **Dicks**. What was your counterproposal that you asked the Contadora nations to put in that would have satisfied the Administration on verification?

Mr. **Abrams**. Our first view—and this was the President's statement in his General Assembly speech—that you have to get the warring parties to sit down.

The people who are fighting should sit down at the table. We think that is a very good way to start. We have talked to the Canadians and others, and the Canadians have been very helpful about putting teeth in. Unverifiable and unverified treaties are an invitation to disaster because it means in exchange for Sandinista words we would withdraw from the picture, and that is a formula for disaster.

Mr. **Dicks**. There is nobody in Central America today who supports the Administration's policy?

Mr. **Abrams**. Except Honduras, Costa Rica, and El Salvador.

Mr. **Livingston**. Reclaiming my time.

Mr. Secretary, would you name the Contadora nations?

Mr. **Abrams**. Yes. The four nations are Panama, Venezuela, Colombia, and Mexico, and the support group nations are Brazil, Argentina, Peru, and Uruguay.

Mr. **Livingston**. Where are El Salvador, Honduras and Costa Rica?

Mr. **Abrams**. ———.

Mr. **Livingston**. In other words, 50 years if we said you can have Czechoslovakia and try to be nice to Poland, we will leave you alone?

Mr. **Abrams**. And we are not going to verify what you do to Czechoslovakia, which is the other part of it. We know that the words aren't worth anything. The question is verification. There is some verification in the September 1985 draft. This September 1984 draft was not supposed to be a final draft. Because it had inadequate verification the Sandinistas said, "This is what we want."

The 1985 draft is what the other countries want. It has verification in it. At the OAS—the Sandinistas won't back it. We are backing it, but at the OAS General Assembly this year, every country in the OAS, including the United States, voted for progress in Contadora, except Nicaragua, which voted against it.

Mr. **Livingston**. I yield back the balance of my time.

Mr. **Murtha**. What was the verification that you insisted on in 1985?

Mr. **Abrams**. Before you put anything into effect, if you sign a deal saying the United States will back out of this immediately and begin talking to Nicaragua about what they might do next year, that is a form of surrender. On day one, who will be guarding the border? How are we going to know that they are not sending any more stuff to the FLMN? What kind of a verification force—look at the Middle East as an example. Who is paying for it? Who are the soldiers? How is this going to be done, and that has to be in place on day one because if we do a deal saying our support backs out on day one and then we start negotiated verification, you are saying to the Sandinistas, "You have a couple of years to mop up the opposition."

Mr. **Murtha**. So the Contadorans insist on verification, and you want to negotiate how to handle that?

Mr. **Abrams**. Right, and the Sandinistas don't want verification. They want simultaneity and that means for their promise to be good, we will have to leave Central America.

INTERVENTION

Mr. **Chappell**. First of all, we understand that the Central Americans are opposed to intervention on the part of the United States or anyone else, the Soviets or the Cubans or anyone else. They recognize that the question of intervention, has swung against that position. Certainly they now believe that the Soviets and the Cubans are the intervenors. Is that correct?

Mr. **Abrams**. Yes, sir.

Mr. **Chappell**. And that our policy is to maintain a nonintervention policy in Central America; is that correct?

Mr. **Abrams**. Yes, sir.

Mr. **Chappell**. You are asking for support for a nonintervention situation, give them a chance to determine their own destiny, but give them an opportunity to fight those forces which would intervene. Isn't that the gist of it?

Mr. **Abrams**. Yes.

Mr. **Chappell**. To what extent have these other nations joined us in putting economic pressure on the Sandinistas? Have they done so?

Mr. **Abrams**. Some have.

For example, Mexico, which used to provide virtually all the oil for Nicaragua, now provides virtually none. One after one the European countries are stopping foreign aid.

Mr. **Chappell**. Put that in the record.

[The information follows:]

[**Clerk's note**.—Classified message removed. Other unclassified material follows:]

FINANCIAL SUPPORT TO GOVERNMENT OF NICARAGUA FROM COMMUNIST COUNTRIES

YEAR		
1979	Total	$2 million
1980	Economic	$30 million
	Military	$5 million
1981	Economic	$80 million
	Military	$40 million
1982	Economic	$150 million
	Military	$90 million
1983	Economic	$240 million
	Military	$110 million
1984	Economic	$280 million
	Military	$250 million

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UNCLASSIFIED

Department of State

INCOMING TELEGRAM

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ACTION ARA-00

ACTION OFFICE NU-02
INFO FILE-01 ARA-04 PPC-01 DECP-01 ECP-01 RPP-02 OAS-01
PPA-01 SSE-01 CU-02 OCEN-01 REG-01 MMAO-01 /020 A1 YC

INFO LOG-00 COPY-01 ADS-00 AID-00 INR-10 ZUR-00 SS-00
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HA-08 L-03 TRSE-00 PM-10 PA-02 OMB-01 STR-20
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AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY WARSAW
USCINCSO QUARRY HTS PM
USLO CARIBBEAN
USCINCLANT NORFOLK VA

UNCLAS MANAGUA 0435

E.O. 12356: NA
TAGS: EAID, NU
SUBJECT: SOCIALIST AID TO NICARAGUA UP IN 1985

1. FSLN DAILY BARRICADA PUBLISHED AN ARTICLE ON JANUARY 16 GIVING A SUMMARY OF AID TO NICARAGUA FROM SOCIALIST COUNTRIES. APPARENTLY THE FIGURES CITED REFLECT ONLY ASSISTANCE CHANNELED THROUGH THE NICARAGUAN ASSOCIATION OF FRIENDSHIP WITH SOCIALIST COUNTRIES (ANAPS). ANAPS RECEIVED A TOTAL OF USDOLS 260 MILLION IN DONATIONS OF CAPITAL GOODS, TECHNICAL ASSISANCE, AND CONSUMER GOODS IN 1985 ACCORDING TO BARRICADA. CUBA LED THE LIST OF DONORS WITH A TOTAL OF USDOLS 95.5 MILLION. THE SOVIET UNION WAS REPORTED AS HAVING CONTRIBUTED USDOLS 17.2 MILLION; CZECHOSLOVAKIA GAVE USDOLS 15.5 MILLION, BULGARIA GAVE USDOLS 14.9 MILLION, AND EAST GERMANY GAVE USDOLS 10 MILLION HUNGARY AND POLAND EACH GAVE USDOLS 8.4 MILLION. THE ARTICLE DID NOT EXPLAIN WHERE THE REMAINING USDOLS 88 MILLION CAME FROM.

2. IN 1984 THE GON ANNOUNCED THAT AID FROM THE SOVIET UNION HAD AMOUNTED TO USDOLS 262 MILLION OVER THE FIRST FIVE YEARS OF THE REVOLUTION. EASTERN EUROPE AND NORTH KOREA WERE SAID TO HAVE CONTRIBUTED USDOLS 150 MILLION DURING THE SAME PERIOD.

3. COMMENT: THESE LATEST TOTALS GIVEN BY BARRICADA TALLY FAIRLY CLOSELY WITH OTHER INFORMATION RELEASED OVER THE PAST YEAR REGARDING AID FROM SOCIALIST COUNTRIES TO NICARAGUA. THE BILL FOR SOVIET OIL SHIPMENTS IS CERTAINLY NOT INCLUDED NOR IS THE COST OF DONATIONS OF MANPOWER IN THE FORM OF CUBAN DOCTORS, TECHNICIANS, AND TEACHERS. THE TOTAL FOR CUBA DOES APPEAR TO INCLUDE THE WRITE-OFF OF THE LOAN ON THE TIMAL SUGAR PROJECT (USDOLS 73 MILLION) AND A USDOLS 20 MILLION LOAN FOR THE PURCHASE OF CAPITAL AND CONSUMER GOODS EXTENDED IN MARCH 1985. END COMMENT.

4. THE ARTICLE ALSO MENTIONED THAT ANAPS WOULD EXPAND ITS RUSSIAN-LANGUAGE TEACHING PROGRAM IN 1986. LAST YEAR 130 STUDENTS-ATTENDE RUSSIAN CLASSES, BARRICADA SAID.
BERGOLD

UNCLASSIFIED

NICARAGUAN ECONOMY

Mr. **Chappell**. What is the current condition of the Nicaraguan economy? Are you going to cover that? Give us a quick one on that one. These are things we might be able to use in our presentation.

Just on the current condition of the Nicaraguan economy.

Mr. **Helgerson**. ———

[Clerk's note.—Classified discussion removed.

[However, an unclassified fact sheet on Nicaraguan's military costs follows:]

Military Costs

Military costs are another major contributing factor to Nicaragua's economic woes. Somoza's National Guard never exceeded 7,500 men until 1978 when efforts were begun, largely unsuccessfully, to double the size of the Guard. There are now 120,000 armed Nicaraguans and the government is planning further increases. At the beginning of 1984, official Nicaraguan sources estimated that 25 percent of the budget went to the military. President Daniel Ortega has admitted that 40 percent of the 1985 budget is earmarked for defense. Many observers believe that figure to be much higher if indirect support costs are included.

According to the Sandinistas, arms procurement is not costing Nicaragua foreign currency. Weapons suppliers, they claim, have either donated arms or granted generous credit terms. Major expenditures for the military are for wages and supplies such as food and uniforms. Nevertheless, the military is suffering from shortages of basic supplies.

In addition to the direct costs of maintaining the largest fighting force in Central America, the opportunity costs are high. For the past two years, Nicaraguan harvests have suffered because of manpower shortages. Students and foreign volunteers have been shipped in to assist with cotton and coffee harvests to help replace more experienced laborers who are neither now in the army, in hiding or outside the country. Besides creating costly delays, the use of these inexperienced pickers damages plants and reduces product quality.

It is difficult to assess how much of the current military expenditure is due to the war against the freedom fighters. The greatest majority of those whom the Sandinistas fight today are former supporters of the FSLN or at least of the broad goals of the pluralistic revolution. FSLN policies have converted them into enemies. Even in the first years of the Sandinista regime, when the freedom fighters were not yet numerous, the army, militia and reserve were much larger than under Somoza; obviously internal control was the primary reason for the buildup.

SOVIET ACTIVE MEASURES

Mr. **Young**. The questions that I want to ask in the special access part of our hearing will go to the issue of the Soviet active measures campaign through Cuba, through the Sandinistas and their effort to influence the public opinion in the United States and subsequently to influence the opinion of the U.S. Congress. What you are talking about here is part of what I think should be an aggressive policy of fighting back and standing up to that active measures campaign.

I am happy you raised the point because I want to pursue that in the special access session.

Mr. **Chappell**. Fine.

Unless there are other questions at this point, why don't we——

AID TO NICARAGUA

Mr. **McDade**. I just want to ask the Secretary, just for historical purposes, about the Carter Administration's decision to cut off aid to Nicaragua. When did that happen?

Mr. **Abrams**. President Carter's last month in office, January 1981. And he began military aid to the El Salvadoran Government because of Nicaraguan subversion of El Salvador.

SOVIET ARMS TO NICARAGUA

Mr. **McDade**. At what point is our earliest evidence of Soviet arms being shipped into Nicaragua?

Mr. **Abrams**. 1979, the first year of Sandinista rule.

Mr. **McDade**. 1979, and a growing amount since then?

Mr. **Abrams**. Right.

Mr. **Chappell**. What problems is Nicaragua encountering in making its international debts payments?

Mr. **Abrams**. I believe they are in arrears on debt payments, and that is one of the reasons the Mexicans have stopped delivering oil.

Mr. **Chappell**. I think that is an important point. ———

ECONOMIC VS. MILITARY AID

Mr. **Dicks**. Mr. Chairman, one final question.

Recently in a television interview with John McLaughlin, Costa Rica's new president said of America's military assistance to the Contras, "If I were Mr. Reagan, I would give the money to Guatemala, El Salvador, Honduras, and Cost Rica for economic aid, not military aid to the Contras."

Mr. **Abrams**. He acknowledges that Costa Rica helped put the Sandinistas in power and he thinks that was a good idea, but he doesn't think there should be military assistance now to people who are trying to continue the struggle for democracy. If you don't do the military support, you have to argue that just sitting at the negotiating table is going to be enough. But President Carter did that for a year and a half and it didn't produce anything but further communization of the society.

Then in June 1984 when support was cut off by Congress, what was the Nicaraguan response? There was the chance to come to the negotiating table, and the response was that the Congress cut off funds and then the Soviet helicopter gun ships arrived. It is a misreading of history.

We have tried the route of negotiation without pressure and the Sandinistas don't talk that language.

Also, you should know that the newspaper editorial comment in San Jose has blasted Arias for that comment because it is not a common view in Costa Rica.

Mr. **Murtha**. Is the Secretary going to stay here when we go into the other session?

Mr. **Chappell**. Can you do so?

Mr. **Abrams**. I will stay.

Mr. **Chappell**. Mr. AuCoin has a few questions he would like answered for the record.

[**Clerk's note**.—Questions submitted by Mr. AuCoin and the answers thereto follow:]

FORMER SOMOCISTAS

Question. According to a letter from former Assistant Secretary of State for Inter-American Affairs Langhorne Motley to Congressman McHugh last year, nine of the 10 members of the FDN general staff are former Somocistas. Is that still the case?

Answer. "General Staff" was used as shorthand for senior headquarters positions. The FDN did have an entity called the "General Staff", but it was dissolved in January 1984. A complete count of the senior leadership positions must include all members of the strategic and civil-military commands, all operational commanders, and all chiefs of support services. Of these 21 individuals, 11 once served in the Guard. A former Sandinista officer and nine civilians hold the other positions.

Question. Mr. Secretary, you have stated that 41 of the top FDN military leaders are former guards. Given the fact that we've been supporting the insurgency for three years, why are we still relying so heavily on former Somocistas?

Answer. We are not relying heavily on former Somocistas. The majority of the resistance leaders are civilians with both rural and urban backgrounds. Of an estimated 153 key leadership positions, nearly two-thirds have no connection to Somoza or the Guard, and 30 are former Sandinistas.

The resistance forces have grown steadily since 1982. This means that more people now joining were previously with the Sandinistas than with the Guard, which ceased to exist more than six years ago. It also means that the FDN's organization and components are themselves constantly changing.

Question. Is Walter Calderon "Tono" Lopez, described in a 1984 FDN publication as Commander of Tactical Operations, still serving in that capacity?

Answer. We believe that "Tono" is still serving in that position, which has been frequently downgraded in its responsibilities. It is one of eight specialized commands, including artillery and river forces, which fall under the Strategic Command.

[CLERK'S NOTE.—End of questions submitted by Mr. AuCoin.]

Mr. CHAPPELL. Mr. Miller also has a question to be answered for the record.

[CLERK'S NOTE:—The question submitted by Mr. Miller and the answer thereto follow:]

COSTA RICA AND NICARAGUA

Question. With regard to Costa Rica, how do you interpret the recent movement toward improved relations between the Costa Rican Government and the Nicaraguan Government? Reportedly they issued a joint statement indicating a "political commitment by the two countries to assure the integrity of their respective territory and prevent it from being used to carry out destabilizing actions in other countries." What impact will this have on the Nicaraguan democratic resistence?

Answer. Costa Rica and Nicaragua have held discussions on creating a border commission to help avoid repetition of the May 1985 incident in which Sandinista troops killed two Costa Rican Civil Guards in Costa Rica.

As President Monge made clear in his March 17 statement, no agreement has been reached between the two countries, and Costa Rica intends to deal with the issue in the context of the broader effort of the Contadora Process to conclude a comprehensive, verifiable regional settlement.

[CLERK'S NOTE:—End of questions submitted by Mr. Miller:]

Mr. CHAPPELL. There are some committee questions which need to be answered for the record.

[CLERK'S NOTE:—Questions submitted for the record and the answers thereto follow:]

TYPE OF ASSISTANCE

Question. The summary of the President's request to Congress reads in part, "$30 million of the total $100 million package would be reserved for humanitarian assistance . . . The President would be free to use the remaining $70 million for any kind of assistance he deems appropriate, using whatever agencies he desires, subject to normal procedures for Congressional oversight."

Could you explain to the Committee what is meant by the phrase, "for any kind of assistance he deems appropriate".

Answer. The reference specifies that the President would be free to dispense the assistance as the evolving situation warrants based on careful analysis of information from all sources, needs defined by the democratic resistance itself and close consultations with Congress. Foreseeably, the bulk of this assistance would consist of military aid, but portions could conceivably be used for humanitarian assistance or human rights activities beyond the $27 million and $3 million specifically earmarked for those purposes in the Presiden't request. As the request further notes, funds not expended before a peaceful settlement is negotiated would be available for development assistance throughout the region, including to Nicaragua.

Question. Would the entire $70 million be going to the CIA if it was appropriated?

Answer. We would expect the CIA to be the principal agency involved in channeling the assistance to the Democratic Resistance but DOD and other agencies would be employed as well if specific circumstances suggested them to be better qualified or in other ways more appropriate in a particular situation.

Question. As quoted earlier, "the President would be free to use the remaining $70 million for any kind of assistance he deems appropriate * * * *subject to normal procedures for congressional oversight*". From your perspective, what are those "normal procedures for congressional oversight"?

Answer. The administration is using this language consistently with the accepted concept of congressional oversight responsibility. That is, any parts of the program which the President determines have an intelligence component will be notified to and subject to the oversight of the intelligence committees, and of the appropriations committees if financial disbursements are involved. Similarly, those components of the programs which involve non-intelligence matters would be subject to oversight by the Foreign Affairs and Foreign Relations Committees.

HUMANITARIAN ASSISTANCE

Question. Of the total request of $100 million, $30 million is for humanitarian assistance to the Contras. Although these funds are under the jurisidiction of the Foreign Assistance Appropriations Subcommittee, the Defense Subcommittee is interested in how that program is proceeding and what effect it is having on the outlook for the Contras.

What is the status of the program, funded in the FY 1985 supplemental, to provide humanitarian assistance to the Contras?

Answer. The FY 1985 supplemental appropriated a total of $27 million through March 31, 1986. $18 million of that total was available as of 1/31/86. The final tranche of $9 million became available with the President's February, 1986 report to Congress on Nicaragua. As of March 7, a total of $20.9 million has been obligated in grants, of which $17.2 million has actually been committed.

Question. What portion of these funds has actually been expended?

Answer. Actual expenditures amount to $14 million, leaving a balance of $3.2 million in unpaid commitments. A final determination of funding needs for the various requirements must be made before the remaining $9.8 million of the original $27 million authnorized can be designated and disbursed under specific grants.

Question. What portion of the goods and equipment to be procured with the funds for humanitarian assistance provided in the supplemental have actually been delivered to the Contras?

Answer. All of the $14 million has actually been delivered with the exception of materials awaiting shipment, some assistance administered directly by HOPE and those items of offshore procurement directly by the United Nicaraguan Opposition (UNO) for which NHAO has not yet received billings. The aggregate total of all the above is in the range of $2.5–3 million.

Question. Describe to the Committee the logistics of how the goods and services are actually transferred to the Contras.

Answer. (The above is classified information available to the Committee.)

Question. To what extent has the Honduran government complicated the transshipment of the humanitarian assistance to the Contras?

Answer. (Aspects of our bilateral relations with foreign states can be provided only in closed session.)

Question. What assurances can you give the Committee that if the $30 million is approved for humanitarian aid, the aid would reach the Contras expeditiously?

Answer. Approval of the President's request would empower him to effect direct and timely transfers of the assistance to the democratic resistance through such agencies of the U.S. Government as he deems appropriate.

Question. How effective has the humanitarian assistance been in aiding the Contras?

Answer. US humanitarian assistance has been the predominant factor in the continued survival of the democratic resistance as a viable source of opposition to the consolidation of a permanent Marxist-Leninist regime by the Sandinistas. In spite of administrative difficulties, now largely overcome, this aid has kept the resistance fed, shod, clothed and medically attended. The only real limitation to the overall effectiveness of the assistance have been external factors—the lack of complementary military aid that would allow the UNO forces to accept, train and arm the large pool of volunteers waiting to enlist; the lack of authority to administer the assistance on a covert, dramatically more efficient basis.

Question. Are the Contras receiving humanitarian assistance from other sources—public or private? If so, how extensive is that assistance?

Answer. No other USG assistance is provided. We do not attempt to track donations from private sources and are thus unable to define their dimensions. We are told by UNO, however, that private contributions are diminishing, and we would estimate their total impact to be neglible.

Question. Describe to the Committee the types of goods and equipment that would be procured with the $30 million. Provide details for the record.

Answer. The additional $30 million in humanitarian assistance would be expended for the same mix of commodities and services furnished the democratic resistance to date: medical (roughly 24%), food (28%), clothing (16%), miscellaneous equipment and supplies (11%), and transport (9%). Much smaller percentages will be allocated for UNO and NHAO administrative costs. Ten percent, $3 million, is earmarked exclusively for human rights programs and activities. A more detailed breakdown of requirements depends entirely on developments on the ground and thus cannot be furnished at this time.

Question. Of the total request for $30 million for humanitarian assistance, $3 million is to be used "exclusively for strengthening the observance and advancement of human rights." Describe to the Committee the types of activities that would be conducted with these funds.

Answer. The UNO has pledged itself "to the unrestricted observance of the human rights of all Nicaraguans without exception" and to the establishment of "a rule of law which assures the equality of all citizens before the law; respect for, the full exercise of, and effective development of human rights giving guarantees to national human rights organizations and adhering strictly to international obligations deriving from written agreements."

The additional funds requested will continue to flow to human rights monitoring, enforcement, training and international cooperation efforts. The UNO has established and must continue to finance an autonomous Human Rights Commission, based in Costa Rica, which is charged with the observance by both parties to the civil conflict of the basic principles of human rights. It processes information on charges received involving violations by both sides, and its directors and prosecutors from various UNO armed elements review cases investigated and punitive measures taken. The legal department of the commission will supervise subsections responsible for investigations and publications. Two other elements of the Commission will be an Education and Training Department and a Refugee Department.

Training efforts encompass development of officers to serve as human rights officers with the regional commands and task forces, and regular general human rights instruction as part of basic military training of troops. The human rights officers have also assumed responsibility for monitoring the welfare of prisoners taken in combat.

The Commission will also continue efforts to arrange a system of prisoner exchanges through the good offices of the International Committee of the Red Cross (ICRC) and regional Red Cross Societies, and to reach a bilateral agreement with the Sandinistas, through the Red Cross, for the mutual observance of human rights. In order to promote cooperation with the ICRC, the UNO opened an office in Geneva at the end of 1985.

ECONOMIC PRESSURE ON NICARAGUA

Question. Mr. Secretary, describe to the Committee the effectiveness thus far of U.S. economic pressure on the Nicaraguan government. To what extent have other nations joined in to put economic pressure on the Sandinista Government?

Answer. Other nations have not implemented, nor have we asked them to, trade sanctions against Nicaragua. They have, however, become concerned about Sandinista policies, and several countries are reviewing their aid policies toward Nicaragua. In addition, Sandinista inability to meet commercial terms has led countries to deny credit or impose onerous terms.

Question. To what extent are the Soviets and other countries providing economic aid to make up for the shortfall in aid and trade from the U.S. and other western countries?

Answer. Soviet bloc assistance has become increasingly vital to the Nicaraguan economy, more than offsetting the decline in Western aid. Since 1981, Nicaragua has received $600 million in goods and services financed by long-term credits at favorable rates. When oil is included, we believe that economic assistance was closer to $800 million through 1984. Other commitments over the same period were about double that figure. The Soviet Union now provides 80–90 percent of Nicaragua's oil, and is likely to have to continue at that level as long as Mexico continues to demand payment on past debt before making new deliveries.

Question. What is the current condition of the Nicaraguan economy?

Answer. The Government of Nicaragua, in attempting to create a Communist state, has adopted economic policies which have failed.

The State's role in the economy increased from 13% before the revolution to almost 50% today. Government control and interference in the economy is pervasive and has throttled private sector initiative. The government, for example, controls the banks, all major export industries, foreign exchange allocations, and insurance.

The private sector is harassed and hindered not only by a lack of civil liberties but by arbitrary confiscations, credit discrimination, price controls, excessive taxation, and discrimination in access to foreign exchange. National saving is only about 1% of GNP—one of the lowest rates in the world.

GNP dropped 34% in 1978/79 because of the revolution. It recovered by about 10% from this depressed level in 1980. Since then income has decreased steadily in per capita terms and is now more than 25% below the depressed 1978 level.

Real wages fell by 50% since 1980. Inflation amounted to 173% between 1980 and 1984. The rate of unemployment rose to over 20% last year. Exports declined by 70% in real terms since 1978, while external debt increased from $1 billion to $4.6 billion. This year debt service paid would be three times the country's foreign exchange earnings.

Question. What problems is Nicaragua encountering in making its international debt payments?

Answer. Nicaragua is in arrears in debt repayment to almost all of its major creditors. Nicaragua presently is overdue on obligations of about $400,000 to the IMF. It owes the World Bank approximately $38 million, with some arrearages exceeding 900 days—more than any other borrower. The IDB has stopped making new loan commitments to Nicaragua, and has suspended further disbursements on existing loans because of arrears exceeding two million dollars. The regional Central American Bank for Economic Integration, CABEI, has suspended new project lending for Nicaragua until that country begins repaying its debts. Even Nicaragua's neighbors have suspended trade, except on a cash basis, because of unpaid debts.

Question. What is the present outlook for the Nicaraguan economy?

Answer. Given a continuation of current policies, Nicaragua can expect continued deterioration in nearly all sectors. The GON will continue to rely on Soviet bloc assistance, particularly for oil needs, and will continue to seek out new export markets and sources of some imports. These markets will be less profitable or more costly than Nicaragua's traditional markets.

Question. What has the impact been of Nicaragua's economic problems on the popularity of and support for the Sandinista government?

Answer. Thousands of Nicaraguans have fled the economic, political, and military suppression of the Sandinistas. An estimated 60% of the country's managers and professionals have fled since 1979. Fear of military conscription has prompted many young workers and students to flee or go into hiding. At least 100,000 have left for Honduras and Costa Rica. The Sandinistas have set passport and exit visa fees so high that they equal a month's wages for the average Nicaraguan. More recently, the Sandinistas have been making it increasingly difficult for those not sympathetic to the government to travel and conduct normal business abroad. This policy has further constricted private sector activity inside Nicaragua and is causing an increasing number of businessmen who leave not to return.

CONTADORA PEACE PLAN

Question. Mr. Secretary, the so-called Contadora group of nations—Colombia, Mexico, Panama and Venezuela—have, of course, a deep interest in the unfolding events in Central America. Describe to the Committee the major components of the Contadora Group's current proposal for Nicaragua and Central America.

Answer. The treaty proposal on the table is a September 1985 draft of a final Contadora treaty. Contadora's approach is to get verifiable commitments on the entire range of political and security issues. Although the 1985 draft differs only slightly from the September 1984 draft which the Sandinistas said they would accept, they are refusing to discuss it.

The January 12, 1986 "Caraballeda Message" of the Contadora countries was an effort to create a favorable climate for the advancement of negotiations. It calls for unilateal actions, without verification, to help create such a climate.

Question. What are your views as to the practicality and feasibility of the Contadora Group's current proposal?

Answer. We fully support negotiations of a comprehensive and verifiable treaty. We doubt that it will prove feasible or practical to take the security measures outlined in the Caraballeda Message except in the context of a comprehensive treaty with adequate verification.

Caraballeda also emphasizes the need for national reconciliation, which we see as the key to breaking the impasse in Central American negotiations.

Question. What are the major strengths and weaknesses of the Condadora proposal?

Answer. Caraballeda's emphasis on national reconciliation is an element of strength. We appreciate Condadora's desire for a better climate in which to conduct negotiations. But we believe that asking the Central Americans to take unilateral, unverified security measures outside a treaty framework is unrealistic and weakens the current approach.

Question. In your view, what diplomatic options are available to the U.S. for a political solution in Nicaragua that is in our self-interest?

Answer. There are three possibilities for a political solution in Nicaragua: Contadora; a Sandinista/UNO dialogue; and, in the event that the Sandinistas agree to such a dialogue, U.S.-Nicaraguan bilateral talks. We have reaffirmed our readiness to resume bilateral discussions with Nicaragua simultaneously with the Sandinistas beginning a dialogue with UNO. The Sandinistas have rejected this proposal. We also support President Duarte's offer to resume talks with the Salvadoran FMLN guerrillas simultaneously with the initiation of Sandinista-UNO dialogue, which the Sandinistas have also rejected. We continue to support the Contadora negotiations, which the Sandinistas refuse to resume unless prior conditions are met.

OBSERVABLE NICARAGUAN CONDUCT

Question. Secretary Abrams, the fact sheet accompanying the President's request to Congress reads in part: "Any easing of U.S. pressure on Nicaragua will be implemented after consultation with the Congress by reference to observable Nicaraguan conduct (e.g., freedom of the press, arms deliveries, foreign military presence, respect for ceasefire)."

Could you provide more details to the committee as to the criteria the Administration would use to determine what specific potential future policy changes taken by the Nicaraguan government would result in the U.S. changing policy toward that government?

Answer. One key element is obviously state policy and behavior regarding human and civil rights, of which freedom of the press is but one facet. We would expect to see an end to censorship of the independent press, as well as the organs of the various religious denominations and political parties. We would require Sandinista good faith to be demonstrated by allowing full and unfettered access to the press by all points of view from all sources.

More broadly, we would wish to see unmistakeable movement towards an open society with respected guarantees of economic, political and religious freedoms, including equal opportunity for political participation of all groups in a fairly conducted electoral process. An obvious first step would be the repeal of the state of emergency and sweeping suspension of civil rights and guarantees which has been in place since last year. We would also expect the release of political prisoners and a clear end to the persecution of Nicaragua's ethnic minorities. We believe these goals would flow automatically from sincere compliance with the unambiguous promises of democratization that the Sandinistas publicly made to the OAS some six years ago.

An ineluctable step towards fulfillment of those promises would be the initiation of a dialogue with all sectors of the democratic opposition to the Sandinistas regime. The opposition has called for just such a dialogue, to be mediated by the Nicaraguan Catholic Church, in tandem with a ceasefire. President Duarte of El Salvador has recently sought to contribute to the tone and scope of negotiations by proposing to resume dialogue with the FMLN guerrillas simultaneously with the beginning of Sandinista talks with the democratic resistance.

The administration would take favorable note of the beginning of a dialogue and ceasefire, which we would monitor closely for evidence of good faith from both sides. It is already a matter of US policy that we would return to direct talks with the Sandinistas simultaneously with their initiation of this dialogue. Nicaragua's willingness to live in peace with its neighbors and accept a system of non-violent settlement of regional disputes would necessarily imply a dramatic diminution in the number of Cuban, Soviet and other foreign military personnel who are serving as combatants or combat advisors. It would also encompass an end to the buildup of its disproportionately massive military arsenal. Concrete progress towards those goals should take place through unreserved Nicaraguan commitment to the success of the Contradora negotiations.

Question. Describe to the Committee what is meant by the term "consultation with the Congress" in the context of the President's message.

Answer. The President intends that the Congress continue to be fully informed on the crucial national security question of U.S. activities and policies regarding Nicaragua, and that these be managed through the broadest possible cooperation between the Executive and Legislative branches. This will encompass regular briefings of the Congressional leadership and systematic reference of these policies and programs to the appropriate committees so that they may exercise their oversight responsibilities.

Question. In your view, what series of events would have to occur before the Sandinistas would feel it was in their self-interest to accede to various pressures and implement significant changes in their internal and external policies?

Answer. The primary element must be to dispel Sandinista hope that the U.S. will stand idly by, and Sandinista confidence that a short term military victory over the democratic resistance is therefore assured. If this is not accomplished, the Sandinistas will not negotiate a democratic solution to their internal dispute because they will have no incentive to do so. At the same time, the Sandinistas will step up their systematic extirpation of internal civil liberties as a weapon against the democratic resistance and a guarantee against the emergence of a viable opposition in the future. As a military victory over the democratic resistance proceeds, the Sandinistas will become progressively more able to concentrate on and devote resources to their continuing export of subversion to their democratic neighbors.

It is thus clear that the preservation and expansion of the democratic resistance as an effective fighting force is the sine qua non first step towards Sandinista contemplation of negotiations and internal reform. In our view, Sandinista willingness to make significant changes in the direction of democracy at home, and to move seriously towards the peaceful resolution of the regional disputes it has engendered, will be in direct ratio to the material and personnel resources it is obliged to devote to the defeat of the democratic resistance in the field.

An additional event would be the increase in external political pressure for internal negotiations that the Sandinistas would undergo as the military capacity of the democratic resistance was reinvigorated, it was able to arm its large pool of volunteers and its domestic support became clear. We cannot expect, however, that other countries will take the lead in the absence of unequivocal U.S. support for the democratic resistance. This is especially true of the Central and South American nations, whose views are crucial and who thus far face the continuing threat of Sandinista terrorism or subversion against them.

[CLERK'S NOTE.—End of questions submitted for the record.]

Mr. CHAPPELL. Let's go to a limited access session and all those not qualified to remain will please excuse themselves.

TUESDAY, MARCH 4, 1986.

MILITARY AND CIVILIAN MANPOWER AND COMPENSATION PROGRAMS

WITNESSES

LT. GEN. EDGAR A. CHAVARRIE, USAF, DEPUTY ASSISTANT SECRETARY OF DEFENSE (MILITARY MANPOWER AND PERSONNEL POLICY), ASSISTANT SECRETARY OF DEFENSE (FORCE MANAGEMENT AND PERSONNEL)

LT. GEN. ROBERT M. ELTON, USA, DEPUTY CHIEF OF STAFF FOR PERSONNEL, DEPARTMENT OF THE ARMY

VICE ADM. DUDLEY L. CARLSON, USN, DEPUTY CHIEF OF NAVAL OPERATIONS FOR MANPOWER, PERSONNEL AND TRAINING, DEPARTMENT OF THE NAVY

LT. GEN. ERNEST C. CHEATHAM, JR., USMC, DEPUTY CHIEF OF STAFF FOR MANPOWER, HEADQUARTERS, U.S. MARINE CORPS

LT. GEN. JOHN A. SHAUD, USAF, DEPUTY CHIEF OF STAFF FOR PERSONNEL, DEPARTMENT OF THE AIR FORCE

INTRODUCTION

Mr. ADDABBO. The committee will come to order.

This afternoon, the committee will be addressing the Department of Defense manpower and compensation issues. General Chavarrie, the Deputy Assistant Secretary of Defense for Military Manpower and Personnel Policy, Office of the Assistant Secretary for Force Management and Personnel is with us today for the first time and will address military manpower issues.

He is joined by the individual Service personnel chiefs: General Elton of the Army; Vice Admiral Carlson of the Navy; General Cheatham of the Marine Corps; and General Shaud of the Air Force.

I must emphasize that military manpower issues will be discussed today. Questions on civilian manpower issues will be submitted for the record.

General Chavarrie, we welcome you here and ask that you and the Service personnel chiefs briefly summarize your statements. Your formal statements will be placed in the record.

Due to some reshuffling of the hearing schedule to accommodate some testimony on funding for the Nicaragua Democratic Assistance, we are pressed for time. It is the intention of the Chair to complete this hearing by 3:00 p.m., so that we may ask some questions of the medical community.

SUMMARY STATEMENT OF GENERAL CHAVARRIE

General CHAVARRIE. Thank you, Mr. Chairman.

It is a pleasure for all of us to be here. With your permission, let me just go through quickly some of the highlights in my statement.

Mr. ADDABBO. Without objection, your entire statement will be made part of the record.

General CHAVARRIE. It is a pleasure to talk to you about the condition of our military manpower. We have, as you know, a very well-trained, balanced, well-disciplined, and motivated force. It provides a good foundation for all our defense commitments. A manifestation of this condition is that the President and Secretary of Defense have continued this commitment to a strong manpower posture by excepting essentially all the military personnel accounts from the Gramm-Rudman cuts in fiscal year 1986.

Without these qualified people to operate and maintain our equipment and fill support roles, our modernization would be hollow at best. The growth that we have had in the quality of recruits, the improvement in the experience level of the force, and some of the reductions we have had in critical skill shortages are things that the Defense Department is pleased about.

In terms of our active strength, we are requesting a six-tenths of 1 percent increase in manpower, 13,730 over the level in 1986. This modest growth is required to support force modernization programs already approved by the Congress. We urge your approval for this very small requested growth to support the current force structure and new weapons systems.

With regard to recruiting, despite the substantial improvement in the economy, reduced unemployment, and the continuing decline in the size of the eligible youth population, each Service met its recruiting goals for fiscal year 1985. The success was attributable in large measure to congressional support of our efforts to restore and maintain competitive pay levels, to improve the quality of life for military members, and to provide the Services with necessary recruiting resources.

Ninety-three percent of last year's recruits had high school diplomas, compared with 75 percent in the general youth population. Ninety-three percent of the new recruits scored average or above on the enlistment test, compared to 69 percent in the general youth population. In 1980, only 65 percent of our new recruits achieved these scores. So, recruiting, we think, is a success story.

Since July 1st, the DOD and the VA have jointly been funding a new GI Bill. In the President's budget, we propose that the test program for this new GI Bill be ended on October 1st, 1986, rather than July 1st, 1988, as is called for in the law. At that time, we propose to resume the Veterans' Educational Assistance Program, the VEAP, which was in effect until July 1985. The resumption of the VEAP in place of the new GI Bill will provide what we think are cost savings and an educational recruiting incentive which we believe sufficient to meet our manning requirements.

The selective enlistment and reenlistment bonus programs are the primary incentives we use to attract and retain high quality personnel. The authorities for these bonuses will expire on September 30, 1987. During the effectiveness of these laws, there has been ample evidence that we need the bonuses, and that they are being used in a very cost-effective way. So, before the authorities expire, the Department plans to submit legislation to make them permanent.

With respect to officers, our most serious officer shortage problem continues to be in grades O-4 to O-6 in the nuclear trained submarine and surface officers. We are also keeping a close eye on our pilot situation to ensure that we stay competitive, and that we maintain a level of experience that doesn't jeopardize the readiness of the Armed Forces and flying safety in general.

I would like to mention the legislation that has been on the Hill for some time to establish a comprehensive framework for managing flag and general officer requirements. We have to establish a reasonably consistent methodology for determining these requirements, and I think that hearings on this legislation would help.

In terms of women, we are making excellent progress. Ten percent of the active force is made up of women. This is an increase of about 22 percent since 1980, and we expect the share to grow to about 11 or 11½ percent in the next three or four years.

In equal opportunity, the new Assistant Secretary of Defense for Force Management and Personnel, Mr. Cox, has recently requested the Secretary to establish a Department of Defense Equal Opportunity Council which Mr. Cox will chair, and which will include the three Service Assistant Secretaries for Manpower and Personnel. The purpose is to address equal opportunity issues at a higher level than it has been done in the past. That is a plus in terms of equal opportunity.

Our bread and butter is compensation. With the support of Congress, we have been successful in maintaining a fair and competitive military compensation package. That has to be continued. For fiscal year 1986, the Congress approved improvements in reimbursements and compensation, including increases in selected special incentive pays, increases in reimbursement for travel expenses, and authorization for a dependent dental care program. These are things that are all part of the total compensation package. The restoration and maintenance of an adequate total compensation package is why we have the high quality force that we have today.

The 4 percent military pay raise that is in the budget for 1987 is one that we think is very important. Military pay raises now lag 8.3 percent behind the private sector pay raises, as measured by the ECI, the Employment Cost Index. What we are concerned about is not letting that gap get wide.

If we are going to continue to attract and maintain a high quality force, I think we have to limit the gap to as small an amount as possible.

I would like to touch briefly on another topic. That, of course, is military retirement. We provided draft legislation, as required by the Congress, for two alternative retirement systems that were both designed to meet the reduction in the accrual by $2.9 billion in fiscal year 1986. The Department is strongly opposed to both alternatives. We submitted them in compliance with the law, as required.

We believe that the deep cut in retirement benefits associated with either of those alternatives would severely hamper our ability to attract and to retain high quality personnel. The Secretary thinks that the resulting reduction poses an unacceptable risk to our future combat readiness posture. Therefore, we urge the Congress to keep intact the current system, which has served us well, and to restore the funding required to sustain it.

The important thing about retirement, aside from the numbers—and we deal with numbers a lot, and we will here—is the perception of an erosion of compensation. Sometimes perceptions are more important than numbers.

Another area I might mention is Federal tax policy. We strongly support and urge your support for legislative proposals now pending that protect military compensation from erosion by taxation.

Mr. Chairman, one key point has to do with training. Our operating tempos—ship steaming days, flying hours, combat vehicle mileage—are the things that support collective unit training, and have not increased materially in the past several years. In most cases, they fall below the desired goals of the Services. So any reduction in funding for collective unit training has to result in reduced readiness.

In spite of the quality of the force and the introduction of new weapons, we ask the Congress to provide the resources required for unit training to realize the maximum return for readiness.

The next item I would like to mention is European troop strength. We would like the Congress to repeal the ceiling on European troop strength which is currently set at 326,414. Although the ceiling has helped to focus attention on European troop strengths and sensitized our allies to the burden-sharing concerns, it is counterproductive.

We can't deploy the ground-launched cruise missile if we have to reduce our conventional forces and remain within the ceiling. The ceiling undercuts our flexibility. We believe that the security interests of the U.S. are best served by elimination of the ceiling.

The last item has to do with reserves. We have placed a great deal of emphasis on improving the Reserve Components. The results, I think, are evident.

In 1985, the selected reserve strength reached an all-time high of 1,088,062. We requested an increase to 1,186,200 for 1987.

The quality of selected reserve enlistees has increased quite a lot. We believe very strongly in the total force, which includes the active military, the civilian workforce, the selected reserves, and the IRR; and with the proper emphasis on all these, we will still maintain the high quality force that we have today.

Thank you, Mr. Chairman.

[The statement of General Chavarrie follows:]

STATEMENT BY THE DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MILITARY MANPOWER AND PERSONNEL POLICY

Good afternoon, Mr. Chairman.

It is a pleasure to testify concerning the condition of our Total Force. Our principal goal is to deploy the highest quality and most effective soldiers, sailors, marines and airmen in the world to preserve peace, deter aggression and respond to contingencies. I will review our objectives, initiatives, programs, successes, and problems in this Total Force effort.

The Total Force encompasses not only the active and reserve military components, but also our civilian employees, the contractors who work for the department, and retired military personnel. We strive to obtain the best possible mix of all these valuable resources and to maximize their productivity in order to achieve:

1. A high state of readiness to mobilize, employ, and sustain our force;

2. With a most effective and efficient expenditure of the funds entrusted to us by the American taxpayer.

ACTIVE COMPONENT MILITARY MANPOWFR

The active component of the Total Force provides a military presence overseas, engages in low intensity conflicts, and serves as the vanguard of our response to large-scale aggression.

Major deficiencies in the quality and quantity of the active component which prevailed in the late 1970s have been corrected in the last five years. We now have a well trained, well balanced, well motivated, well disciplined force that provides for our current defense commitments and serves as a solid foundation for the future. The President has shown his continued commitment to this strong manpower posture by exempting essentially all of the military personnel accounts from Gramm-Rudman cuts in FY 86. Without qualified, dedicated people to operate and maintain military equipment and fill our combat and support units, our improvements in force structure and modernization would have been hollow at best.

Growth in active strength, improvement in the quality of recruits, improvement in the experience level of the force, and reduction of critical skill shortages, all demonstrate this success.

Active Strength

Adequate strength is fundamental to unit personnel readiness. There are over 100,000 more active component service members today than there were in 1980. For FY 87, we are requesting an increase of 13,730 (or 0.6 percent) over the FY 86 level of 2,167,370. This modest growth is required to support the force modernization programs already approved by Congress. End strength levels should not be constrained below the level sufficient to man the force, as they have been the last three years. Undermanning of new weapons systems and of the force as a whole ultimately degrades readiness. We urge your approval of funding for our requested growth to support our current force structure and new weapons systems.

Recruiting

Despite substantial improvement in the economy, reduced unemployment, and the continuing decline in the size of the eligible youth population, each Service met its recruiting goals for FY 85. That meant about 301,400 non-prior service accessions. This recruiting success was attributable, in large measure, to Congressional support of our efforts to restore and maintain competitive pay levels, to improve the quality of life for military members, and to provide the Services with necessary recruiting resources and enlistment incentives.

Education levels and enlistment test scores of our recruits are considerably higher than those of the general youth population. Ninety-three percent of last year's recruits have earned a high school diploma. This compares to about 75 percent of today's general youth population and 68 percent of recruits in FY 80. Ninety-three percent of new recruits in FY 85 likewise scored average or above on our enlistment test, compared to 69 percent of today's general youth population and 65 percent of recruits in FY 80.

Recruiting in FY 86 and beyond may become more difficult. Congressional action that reduced our active component recruiting and advertising request for FY 86 by $30 million dollars and eliminated our authority to pay an enlistment bonus to service members who also receive an educational "kicker" may substantially affect our ability to attract recruits of high quality.

Since July 1, 1985, the Department of Defense and the Veterans Administration have been jointly funding and administering a three-year test program of the New GI Bill. In the President's Budget, we propose that this test program be ended on October 1, 1986 rather than July 1, 1988, as is called for in the current law. At that time, we propose to resume the Veterans Educational Assistance Program (VEAP), which was suspended during the New GI Bill test period. The resumption of VEAP, in place of the New GI Bill, will provide cost savings and an educational recruiting incentive sufficient to meet our manning requirements.

Enlisted Retention

We have halted the loss of experienced people that plagued the Armed Forces in the late 1970s. The current reenlistment rate for career enlisted personnel is about 84 percent, compared to about 69 percent in 1979. The total enlisted force has grown about 4 percent since 1980, while the noncommissioned and petty officer corps has grown by about 13 percent. Average years of service in the enlisted force have increased from 5.55 to 6.04 years.

While enlisted retention is now at high levels, some shortages still exist in skills that are highly marketable in the private sector or that involve particularly arduous duties. These shortages are primarily in the middle grades and are being alleviated by improved bonus programs, better promotion opportunities in shortage skills, and retraining/reclassification programs.

The Enlistment and Selective Reenlistment Bonus programs are two of the primary incentives we use to attract and retain high quality personnel. The authorities for these bonuses (Sections 308 and 308a of Title 37, United States Code) expire on September 30, 1987. During the effectiveness of these laws, there has been ample evidence that such bonuses are needed and are being used in a cost-effective way. Before the authorities expire, the Department plans to submit legislation to make them permanent.

Officer Shortages

Our most serious officer shortage problem continues to be in the grades 0-4 through 0-6 in the nuclear trained submarine and surface officer communities. We believe that continuing the various enhanced incentive programs previously established by the Congress will help reduce these critical shortages from about 20 percent now to about 10 percent by the end of the decade.

Another continuing officer retention problem is in the pilot communities of the Services. Currently, only the Navy has an aggregate shortfall (approximately 1,100), but all Services have been adversely affected by the continuing high rate of hiring by the airline industry. We are monitoring this situation closely to ensure that we remain competitive and that we maintain a level of experience that does not jeopardize aviation readiness and safety.

The management of flag and general officers is another area in which we continue to experience some problems. We have resubmitted legislation to establish a comprehensive framework for managing flag and general officer requirements. We need to get away from temporary solutions and establish a reasonable and consistent methodology for determining flag and general officer ceilings.

Wartime Shortages

Our current data project both officer and enlisted shortfalls in the event of war. Most of these shortfalls arise from casualties and the training time required for replacements. We are beginning to address these shortfalls by planning for (i) wartime assignments of personnel in their secondary skill areas; (ii) preassignment of pretrained reserve and retired personnel to wartime requirements; and (iii) peacetime refresher training for reserve and retired personnel oriented to their wartime assignments.

Military Women

We continue to make excellent progress in increasing the role of women in the armed forces. Today almost 10 percent of the active force is made up of women. This is a 22 percent increase in the number of military women since FY 80. Military women can and should be used in all roles except those explicitly prohibited by combat exclusion statutes and related policy. We expect the number of military women to continue to grow over the next few years.

Equal Opportunity

Equal opportunity programs support the best use of all our human resources, enhance unit cohesiveness and morale, and are a vital element of Total Force readiness. While we have made significant progress in these programs, we need continued innovation and initiative in order to insure fairness and actual equality of opportunity. The Assistant Secretary of Defense (Force Management and Personnel) has recently requested the Secretary to establish a Department of Defense Equal Opportunity Council which the ASD (FM&P) will chair and which will include the three Service Assistant Secretaries for manpower and personnel as members. The purpose of the council is to address equal opportunity issues and concerns at the highest executive management level of the Department, to monitor the progress of EO programs in the military components, and to advise the Secretary on equal opportunity policies. The council will review the status of women and minorities in conjunction with a review of our Total Force requirements.

Compensation Issues

Meeting our recruiting and retention goals is dependent upon maintaining a fair and competitive military compensation package. With the support of the Congress, we have been successful. The FY 86 Defense Authorization Act contained numerous and substantial improvements in compensation and reimbursements, including increases in selected special and incentive pays, increases in reimbursement for travel expenses, and authorization for a dependent dental care program.

In view of the compensation improvements provided in FY 86 and the constrained budget environment in which we are operating, we are proposing only modest improvements in compensation for FY 87.

The 4 percent military pay raise we are requesting closely parallels our best projection of what private sector wage growth will be in FY 87. Military pay raises now lag 8.3 percent behind private sector pay raises as measured by the Employment Cost Index. It is imperative that we not allow this gap to widen if we are to continue to attract and retain the high-quality personnel we require to maintain force readiness.

Before leaving the discussion of military compensation, I would like to touch briefly on two other topics that I believe play a vital role in our ability to recruit and retain personnel. The first is military retirement. As you know, we submitted legislation, as required by Congress, for two alternative retirement systems designed to reduce the accrual for the military retirement fund by $2.9 billion in FY 86. As we indicated in our report to Congress, the Department is strongly opposed to both alternatives. We believe that the deep cut in retirement benefits associated with either alternative would severely hamper our ability to attract and retain the high-quality personnel we need and would therefore pose an unacceptable risk to our future combat readiness posture. Therefore, I urge the Congress to keep intact the current system, which has served us well, and to restore the funding required to sustain it.

The other area I would like to discuss briefly is federal tax policy regarding military pay and benefits. The present tax treatment of military compensation is a long-standing tradition originally adopted for reasons relating to the unique conditions of military service. We believe those reasons are as valid now as they were when the present policy was adopted. The tax benefits received by military personnel are an integral part of total military compensation, and any reduction in those benefits would be a cut in overall compensation. Proposals in both

Houses, including the Tax Reform Act of 1985 that recently passed the House, recognize it as essential that our members be protected from reductions in compensation through changes in federal tax policy. We strongly support the legislative proposals that preserve military compensation from erosion by taxation.

Quality of Life

We have found that attention to quality of life concerns pays off in increased retention and improved morale and productivity. Our programs in this area contribute to sustaining personnel readiness by recognizing the importance of healthy military families. Some highlights in this area are:

--the 550 child care facilities operating on 400 installations worldwide,

--the expansion of day care programs,

--the Family Policy Office established last year,

--the addition of 26 family service centers, bringing the total to 298 on DoD installations worldwide,

--efforts to improve the situation of military spouses seeking employment,

--the authorization of the use of commercial credit cards in the exchange system,

--our safety and occupational health program, which reduces personal hardship and suffering through prevention of accidents, injury, and illness, and

--our economic adjustment program, which operates in close cooperation with local government efforts to ensure that necessary public services are available to service members and their families where military bases are being expanded or created.

Your support for our quality of life programs is vital to their success.

Training and Education

To receive the full benefit from our valuable human resources, we must teach individual service members to perform capably in over 600 military skills, and we must train groups of skilled individuals to perform as military units.

The quality of individual instruction has steadily improved over the past several years. Congress has supported adequate numbers of instructors and supporting personnel, improved training facilities, and modern training technology, such as simulation for maintenance training and computer-based instruction.

Rigorous and realistic unit training is indispensable to developing the smooth teamwork required for ready forces. During the past five years, improved technology has made training more realistic and effective. The development and use of instrumented ranges for air-to-air and ground-force tactical training is an example. Innovations of this type are particularly important to stretch the value and effectiveness of the unit training dollar. Operating tempos--ship steaming days, flying hours, combat vehicle mileage--that support collective unit training have not increased materially over the past several years, and in most cases they still fall below the desired goals of the Services. Any reduction in funding for collective unit training would result in reduced readiness, in spite of the quality of our personnel and the introduction of new weapons. I urge the Congress to provide the resources required for effective collective unit training.

Education is the knowledge base for training. Education programs and options have evolved to support training, recruiting and retention. Our tuition assistance program, as an example, supports 700,000 off-duty college course enrollments, making it the largest continuing education program in the world.

European Troop Strength

I urge the Congress to repeal the ceiling on European troop strengths, which is currently set at 326,414. Although the ceiling has helped to focus attention on European strengths and has sensitized our NATO allies to the burdensharing concerns of the Congress, it has become counterproductive. For example, as we deploy the Ground Launched Cruise Missile we must reduce our conventional force contribution to NATO to remain within the ceiling. This significantly undercuts the emphasis on conventional defense improvement mandated by the Alliance Defense Ministers and stressed by the Congress. In addition, the ceiling tells our friends and enemies alike that we have a political cap on our commitment to NATO that is not responsive to any increase in the threat. The ceiling is also not the best way to encourage increased allied contributions. Rather, we should lead by example and by positive incentives, such as the Nunn amendment on NATO cooperative research and development.

Overall ceilings on Service end strengths, budget realities, and other global requirements for US forces all work to constrain European strength. Futhermore, we now have a much improved system for managing European troop strengths to ensure that they are held to the minimal essential level. From a management viewpoint, the ceiling interferes with DoD's operational flexibility and is precisely the kind of micromanagement that members of the Congress have opposed. I believe the security interests of the United States would be best served by the elimination of the ceiling.

RESERVE COMPONENT MANPOWER

The reserve components are key elements of our Total Force. We include each category of reserve manpower in our planning for mobilization in time of war or national emergency.

Categories of Reserve Manpower

Total reserve manpower consists of the Ready Reserve, the Standby Reserve, and the Retired Reserve. The Ready Reserve consists of the Selected Reserve, the Individual Ready Reserve (IRR), and the Inactive National Guard (ING). The Selected Reserve is composed of the organized, equipped, and trained units and individuals required to maintain the highest level of readiness in the Reserve Components. The IRR/ING is made up of individual reservists who are not in the Selected Reserve but who can be recalled on an individual basis to provide initial augmentation of active or reserve units. The Standby Reserve contains those individual reservists who wish to remain affiliated with the reserve but are unable to participate in the Ready Reserve. Finally, the Retired Reserve comprises reservists who have been transferred to a retired status.

Improvements in Reserve Manpower

This Administration has placed great emphasis on improving Reserve Component military manpower, and the results of this emphasis are evident. In FY 85, Selected Reserve strength reached an all-time record level of 1,088,062. We have requested an increase to 1,186,200 for FY 87. The quality of Selected Reserve enlistees has increased significantly, in spite of sustained economic growth, a smaller pool of military-age youth, and higher retention in the active military components. Increased recruiting resources and targeted incentives have contributed significantly to this increase.

The IRR/ING has grown about 18 percent since FY 80. Management initiatives and the IRR Reenlistment Bonus Program are helping to retain people with key skills and to reduce shortages in combat and other critical wartime skills. We also expect the new eight-year military service obligation to contribute further increases in IRR strength. To ensure that the IRR will be a viable wartime asset, the Department will conduct annual screening to determine the skill proficiency, refresher training needs, and mobilization readiness of IRR members.

Force Mix Considerations

We consider many factors in deciding on the proper mix of active and reserve forces. Cost, of course, is a primary consideration; total defense costs are reduced by maintaining significant military capabilities in a reserve status rather than maintaining all military forces on active duty. However, overseas deployments and some peace-time missions are not appropriate for part-time reserve forces. We must also ensure that there are sufficient active forces to provide for needed reinforcement until reserve forces can be mobilized.

Although the considerations noted above mean that each decision on active-reserve force mix must be addressed on its own merits, our general policy is to use reserves whenever possible. Our reserve personnel are highly trained, highly skilled professionals whose sense of duty and demonstrated ability are cornerstones of our national defense.

RETIRED MILITARY PERSONNEL

Our retired military personnel constitute a pool of highly trained individuals with prior military experience (regular or reserve) who can be recalled to active duty during a major conflict. These personnel could be used as fillers to bring units to wartime strength, to expand the continental United States support base, or to perform other functions related to national defense.

We estimate that there are about 820,000 non-disability military retirees under age 60. In order to maximize the potential of this valuable manpower pool, we are trying to ensure that all of these retirees whose skills match a mobilization requirement are preassigned in peacetime to mobilization billets or stations. The Army has issued preassignment orders to over half of its eligible retirees. The Marine Corps has preassigned only a small percentage of its retirees but can link the remainder of its retiree force to vacant wartime positions through automated data systems. The Navy is beginning to match retirees with mobilization billets, and the Air Force has developed plans for selectively using retirees after the announcement of a mobilization.

Our efforts to improve the management of this potential manpower resource show our commitment to obtaining the best possible mix of all the personnel assets available to us.

CIVILIAN MANPOWER

Our policy is to use civilian employees and contractors wherever possible, in order to free our military forces to perform military functions. Our civilians are heavily invested in support and auxiliary areas, where they perform functions essential to near- and long-term military readiness:

--Seven percent of the Department's FY 85 civilians were employed in direct support of DoD strategic and tactical/mobility activities.

--Nine percent were employed in auxiliary activities such as intelligence, communications, and research and development.

--Thirty-three percent were employed in base operating support functions.

--Thirty-five percent were employed in central logistics functions.

--The remaining sixteen percent were employed in medical and personnel support, individual and force support training, and other support functions.

Manpower Levels

During 1985, the Department managed civilian manpower levels based on funded workload as opposed to end strength ceilings. At the end of FY 85, the Department employed 1,129,148 civilians, 41,372 over the FY 85 President's Budget estimate of 1,087,776. For FY 86, we project funding a civilian work force of 1,110,204, and we are requesting funding for a FY 87 civilian work force of 1,114,616.

For FY 86 and FY 87, the civilian staffing level of the Military Departments as a whole remains basically level. The Army numbers reflect a 2,000 space reduction due to restructuring and increased efficiency activities. A 1,500 space increase is forecast in the Air Force for increased support of B-1, C-17, and F-16 aircraft and an increase in the number of civilian technicians to support Guard and Reserve activities.

There is an increase of 5,000 civilians in the Defense Agencies. These increases are spread throughout the agencies, with the largest share going to the Defense Logistics Agency for contract administration and quality assurance efforts. There are also significant increases in the Defense Contract Audit Agency, the DoD Dependents Schools, and the DoD Inspector General's Office.

Defense Agencies

I would like to focus for a moment on the Defense Agencies, a group of Defense Department organizations that receive very little recognition but are essential to the successful accomplishment of our missions. The Defense Agencies exemplify our long-standing emphasis on improving the way we do business. They have been organized under authority granted to the Secretary of Defense to integrate under a single agency any supply or service activity common to more than one Military Department, whenever the Secretary determines that this arrangement will be more efficient, economical, or effective. Whenever a Defense Agency outlives its usefulness, or the Secretary determines that the individual Military Departments can perform the activities more efficiently and economically, the Secretary may disestablish the Defense Agency and return its functions to the Military Departments.

Although the Defense Agencies are essentially civilian organizations, they all have some military personnel to ensure an adequate understanding of the requirements of the Military Departments. The primarily civilian makeup of the Defense Agencies ensures economies of pay, longer corporate memories, and higher technical skills than are readily obtained from a military manpower pool with its frequent personnel rotations.

The distribution of civilians among the Services and Defense Agencies is based on the changing missions of these components, the differing workloads associated with those missions, and various Department initiatives to reduce demands for manpower.

Operations Without Ceilings

The Fiscal Year 1986 DoD Authorization Act excluded all Department operations and activities from civilian end strength controls for a second year. During FY 83 and FY 84, DoD industrially funded activities operated without civilian end strength ceilings. The Assistant Secretary of Defense (Force Management and Personnel) has issued guidance to the Services and Defense Agencies on operations without civilian ceilings that stresses prudent and efficient management, including an emphasis on labor saving initiatives. On February 1, 1986, we provided a report to the Congress on our FY 85 experiences. Per Congressional direction, we will submit quarterly reports on our FY 86 operations. We appreciate the opportunity the Congress has given us to show that the Department can manage its civilian work force efficiently and effectively without statutory end strength controls. As directed by Congress, our FY 87 civilian manpower request anticipates continuing operations without ceilings.

Management Headquarters

Over the past several years, the Department has tried to strengthen program and policy oversight at the highest level within the Department in order to reduce waste and improve management of Department resources. Increasing pressure from Congress to reduce management headquarters activities and the Office of the Secretary of Defense (OSD) in particular has hindered us in this effort. The continuation of the freeze on OSD manning levels through FY 86 has increased the potential for waste and mismanagement.

During the last authorization and appropriation cycle alone, Congress levied requirements for 676 different reports from the Department. The Secretary of Defense must have the sufficient manpower resources to manage the Department effectively and satisfy ever-increasing congressional requirements.

INITIATIVES TO REDUCE DEMANDS FOR MANPOWER

Because we are extremely conscious of budget realities, the Department makes every possible effort to reduce our demand for manpower in accomplishing our mission. We have directed the components to use temporary employees and overtime to help accommodate workload surges and unplanned and one-of-a-kind requirements. Use of these alternative staffing methods will assist in minimizing the size of our permanent civilian work force.

Under the A-76 program, any operation or activity that is not necessarily governmental or military in nature should be competed with the private sector. The Department has competed approximately 49,600 military and civilian positions with the private sector since 1979. In-house work forces have won about 50 percent of the competitions, and private industry has won the other half. The A-76 competitive process is now saving the Department about $501 million annually.

The Efficiency Review program takes a hard look at Department missions, functions, and activities that cannot be subjected to an A-76 commercial activities review. A trained Efficiency Review team analyzes mission statements, establishes performance work statements for these approved statements, and then seeks out and employs the most efficient methods for performing these missions.

We involve our work force in productivity improvement efforts by using behavioral techniques such as Quality Circles, performance-based incentive systems, job enrichment efforts, and organizational development efforts.

We also use a broad range of Productivity Enhancing Capital Investment programs to encourage and finance cost-effective investment in equipment and technologies. The FY 87 Department of Defense Budget request includes $283.2 million in Productivity Enhancing Capital Investments. Of this amount, $176.2 million is earmarked for Productivity Investment Fund projects costing $100,000 or more. These projects, once implemented, will pay for themselves within 1.8 years. We project a current overall return of $16 for every $1 invested.

CONCLUSION

Our emphasis on qualifying our people for their jobs and maximizing their productivity has taken on added importance as we face the uncertainties of the Gramm-Rudman-Hollings Act. We are doing our best to ensure that we meet our national security objectives while promoting economy and efficiency. We need your help in ensuring that we have the incentives we need to recruit and retain each component of the Total Force and the tools we need to manage these components. It is imperative that we preserve the current robust strength of our force, which your support has helped produce. We reaffirm to you our unswerving commitment to peace through strength.

Mr. ADDABBO. Thank you very much.

General Elton, Deputy Chief of Staff for Personnel, Department of the Army, I would ask you to be as brief as possible. I think the General has already covered most of the points.

SUMMARY STATEMENT OF GENERAL ELTON

General ELTON. Thank you, Mr. Chairman.

It is a privilege for me to appear before you. I will summarize my statement and ask that the major statement be put into the record, along with some key supporting charts.

Secretary Marsh and General Wickham have already presented their vision, which was built around the vectors for our Army. My comments will be addressed to their first vector, quality soldiers and strong families in both active and reserve components.

Our personnel readiness continues to be built on a foundation of quality soldiers and leaders supported by dedicated and committed Army families. We owe a huge vote of gratitude to this Congress for the Military Family Act of 1985 and other family program support. Thanks to your assistance, we are beginning to make substantial improvements in the quality of life programs for our soldiers and their families.

We firmly believe that the stronger the family, the more ready the Army. Accordingly, we shall continue working hard to maintain the momentum and bring our plans to reality. As we continue to improve the quality of our enlisted force and increased combat force structure, we maintain a constant end strength of just under 781,000 through fiscal year 1987.

Our force structure changes have been achievable as a result of greater reliance on our reserve and civilian components, contracting activities and organizational modernization. In this regard, our reserve component end strength increases from 761,000 to 790,000 during fiscal year 1987, and is projected to surpass our active component end strength for the first time in our history.

With extraordinary effort on the part of an outstanding recruiting force, we have been able to reach our accession targets in quantity and quality during 1985. We know our achievement in recruiting would not have been possible without the continued support of the Congress, the American people and intensive work by the recruiters.

Our position in an extremely competitive recruiting market has been enhanced by educational incentives and cash bonuses. Recruiting market research has indicated two separate and distinct career goals for the nation's high school graduates, work and college. A viable recruiting program demands incentives for each market.

While the high school senior is attracted by bonuses, the educational incentives have better appeal to our college-bound graduates. With the potential pool of American youth declining during an ever-improving economy, we consider these incentives absolutely essential to recruit our share of America's quality young men and women.

Regardless of the form of educational incentive, we must have one that targets our critical military skills in our active component and provides benefits for our reserve component soldiers. At the present time, funds are programmed for fiscal year 1987.

Last year, we began an intense program aimed at better preparation and retention of these outstanding young soldiers. Our emphasis in this area has provided significant dividends as the first term attrition losses were reduced by over 13,000. This brought a concomitant decrease to our recruiting mission. More importantly, it brought more young Americans into the winner's circle.

Our retention program continues to focus on reenlistment and retention of quality soldiers. But we see clouds gathering. If the current trend in pay comparability continues, in order to maintain an 8.3 percent shortfall compared to civilian pay raises, we consider the requested 4 percent pay raise to be absolutely essential.

A disturbing trend in the continuation rate for retirement eligible soldiers became evident in 1985. To help us analyze this dilemma, we conducted a survey to determine why retirement eligible soldiers were now reenlisting at a significantly lower rate than in past years. Our results attribute some of the decline in our senior noncommissioned officer leadership to how proposed retirement changes will affect them.

These soldiers consider themselves an easy target for potential budget reduction. The irony in this case is that this group understands they will be grandfathered and is reacting on their perception of what might happen in the future.

As General Chavarrie stated, our overall statement on retirement is to leave the current program unchanged. It has served us well. We project through our economic modeling that without a substantial offset such as lump sum investment, or increased reenlistment bonuses, or transferability to family members, the changes to the current system will have a negative impact on future recruiting and retention.

As a final point on the retirement system, the fiscal year 1986 authorization bill directed the Department to submit legislation to achieve a $2.9 billion savings. The Department submitted two alternative retirement system proposals, but legislation has not been enacted.

In the meantime, service members are entering the service under the present retirement system, which requires a restoration of the funds. If Congress does not lift the cap on obligations or change the retirement law, the Army would have to reduce its forces this fiscal year by approximately 120,000 active and 112,000 reserve component soldiers.

Finally, never before in our history has the Army been blessed with so many opportunities and challenges. Such a juncture is important for us to reexamine and to rededicate ourselves to the core values which have been responsible for the many successes in our proud history.

1986 will be the Army year of values. Throughout the year, our leaders will exercise intense effort to develop in their soldiers the fundamental national values which are embedded in selfless military service to this great United States of America.

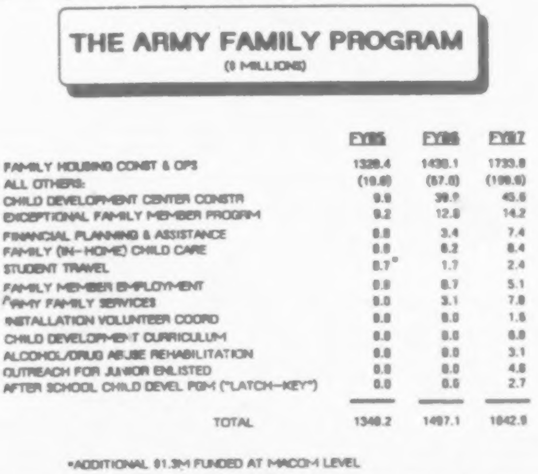
[The statement of General Elton follows:]

STATEMENT OF THE
DEPUTY CHIEF OF STAFF FOR PERSONNEL, ARMY

Thank you, Mr. Chairman. It is a privilege for me to appear before you today. If I may, I would like to briefly summarize my statement and ask that it be put into the record, along with key supporting charts.

Secretary Marsh and General Wickham have already presented their vision built on several vectors for our Army. My initial comments will be addressed to their first vector -- quality soldiers and strong families in both our active and reserve components.

Our personnel readiness continues to be built on a foundation of quality soldiers and leaders supported by dedicated and committed Army families. We owe a huge vote of gratitude to this Congress for the Military Family Act of 1985 and other family program support. Thanks to your considerable assistance, we are beginning to make substantial improvements in the quality of life programs for our soldiers and their families. We firmly believe the stronger the family, the more ready the Army. Accordingly, we shall continue working hard to maintain our momentum and bring our plans to reality. (Chart 1)



THE ARMY FAMILY PROGRAM
($ MILLIONS)

	FY85	FY86	FY87
FAMILY HOUSING CONST & OPS	1320.4	1430.1	1733.8
ALL OTHERS:	(19.8)	(67.0)	(109.1)
CHILD DEVELOPMENT CENTER CONSTR	9.9	39.1	45.6
EXCEPTIONAL FAMILY MEMBER PROGRAM	9.2	12.8	14.2
FINANCIAL PLANNING & ASSISTANCE	0.0	3.4	7.4
FAMILY (IN-HOME) CHILD CARE	0.0	6.2	8.4
STUDENT TRAVEL	0.7*	1.7	2.4
FAMILY MEMBER EMPLOYMENT	0.0	0.7	5.1
ARMY FAMILY SERVICES	0.0	3.1	7.8
INSTALLATION VOLUNTEER COORD	0.0	0.0	1.6
CHILD DEVELOPMENT CURRICULUM	0.0	0.0	8.8
ALCOHOL/DRUG ABUSE REHABILITATION	0.0	0.0	3.1
OUTREACH FOR JUNIOR ENLISTED	0.0	0.0	4.8
AFTER SCHOOL CHILD DEVEL PGM ("LATCH-KEY")	0.0	0.0	2.7
TOTAL	1340.2	1497.1	1842.9

*ADDITIONAL $1.3M FUNDED AT MACOM LEVEL

Our commitment to families is not limited to the fiscal resources you have provided. Through positive, caring leadership, we feel we can maximize the effectiveness and benefits of our new programs. Our sensitivity to "grass roots" leadership can best be described by the response of a young sergeant's wife in which she said "General, these programs from Department of Army sound great, but they only happen here because my husband's company commander cares!" So, the proactive attitudinal shift is beginning to permeate the chain of command at all levels. I appreciate your continued support and want to assure you that every quality of life dollar will return its investment many times over.

As we continue to improve the quality of our enlisted force and increase combat force structure, we maintain a constant end strength just under 781,000 through fiscal year 1987. Our force structure changes have been achievable as a result of greater reliance on our reserve and civilian components, contractual activities and organizational modernizations. In this regard, our reserve component end strength increases from 761,000 to 790,000 during fiscal year 87 and is projected to surpass our active component end strength for the first time in our history. In the civilian component we project a decrease of about 2,000 as a result of reduced strength levels in depot maintenance and supply operations. (Chart 2)

ARMY MANPOWER

	FY 85	FY 86	FY 87
CIVILIAN	419,971	412,478	410,530
ACTIVE MIL	780,787	780,800	780,900
RESERVE MIL	732,032	761,146	790,400
ARNG	439,952	450,496	462,800
USAR	292,080	310,650	327,600

With extraordinary effort on the part of an outstanding recruiting force, we have been able to reach our enlisted accession targets in quantity and quality during 1985. (Chart 3)

NPS ACCESSIONS BY AFQT CATEGORY

(PERCENT)

AFQT	YOUTH	FISCAL YEAR					USMC	USN	USAF
CAT	POP	80	82	84	85	86 GOAL	85	85	85
I-IIIA	50	26	53	63	62.9	59-63	55.1	65.1	70.1 *
IIIB	19	22	28	27	28.5		41.2	25.2	29.0 *
IV	21	52	19	10	8.6	<10	3.7	9.7	0.9
HSDG	74	54	86	90.8	90.7	90	96.8	89.0	98.7

AS OF: 30 SEP 85 * AF I-IIIA/IIIB SPLIT IS ESTIMATED

NOTE: REFERENCE POPULATION CHANGED IN FY85

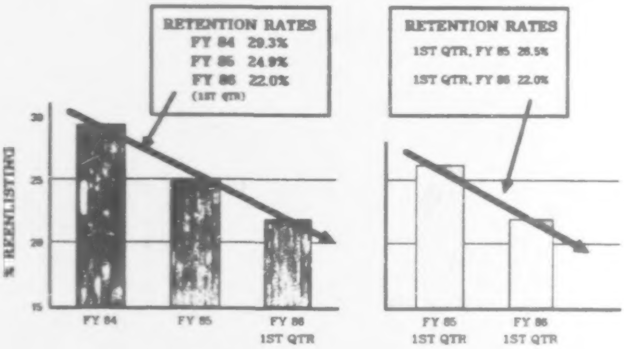
We know our achievement in recruiting would not have been possible without the continued support of Congress and the American people and intensive work by our recruiters. Our position in an extremely competitive recruiting market has been enhanced by educational incentives and cash bonuses.

Marketing research has identified two separate and distinct career goals for the nation's high school graduates -- work and college. A viable recruiting program demands appropriate incentives for each market. While the work oriented high school senior or graduate is attracted by bonuses, the educational incentives have better appeal to our college bound graduates. With the potential pool of American youth (17-19 years of age) declining during an ever-improving economy, we consider these incentives absolutely essential to recruit our share of America's quality young men and women. Regardless of the form of educational incentive, we must have one that targets our critical military skills in our active component and provides benefits for our Reserve Component soldiers.

Last year, we began an intense program aimed at better preparation and retention of these outstanding young soldiers. Our emphasis in this area has provided significant dividends as the 1st term attrition losses were reduced by almost 12,000. This brought a concomitant decrease to our recruiting mission, but more importantly, it brought more young Americans into the winners circle. Our retention program continues to focus on reenlistment of quality soldiers. We see storm clouds gathering; however, if the current trend in pay comparability continues. In order to maintain an 8.3 percent shortfall compared to civilian pay raises we consider our requested 4 percent pay increase in FY87 essential.

A disturbing trend in the continuation rate for retirement eligible soldiers became evident in 1985. (Chart 4)

RETENTION RATES OF RETIREMENT ELIGIBLE SOLDIERS



DROP IN RATES PARTIALLY ATTRIBUTED TO ACTUAL AND PERCEIVED LOSSES IN PAY AND BENEFITS

To help us analyze this new dilemma, we conducted a survey to determine why retirement eligible soldiers were now reenlisting at a significantly lower rate than in the past years. Our results attribute some of the decline in our senior NCO leadership to how proposed retirement changes will affect them. (Chart 5)

FALL FY 86 REENLISTMENT SURVEY

MOST IMPORTANT REASON FOR NOT STAYING IN THE ARMY BEYOND 20 YEARS

- AT 20TH YR MORE MARKETABLE IN CIVILIAN WORLD (28%)
- DESIRE PERMANENT RESIDENCE (16%)
- PROPOSED CHANGES TO RETIREMENT SYSTEM (14%)
- TIME TO DO SOMETHING ELSE (6%)

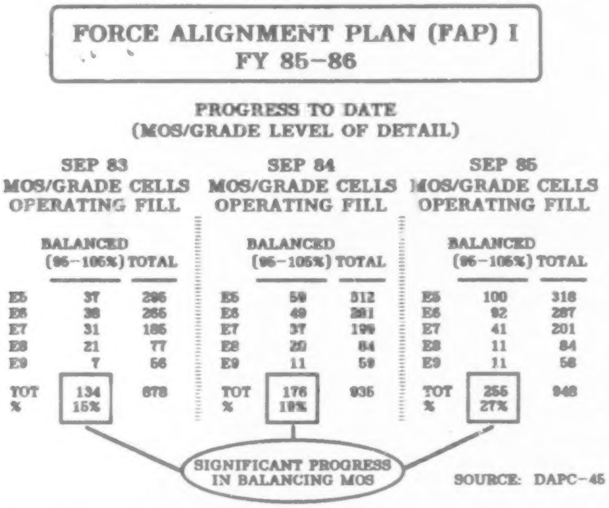
TOP FOUR RESPONSES SHOWN

These soldiers consider themselves an easy target for potential budget reduction. The irony in this case is that this group understands that it is "Grandfathered" and is reacting on their perception of what might happen in the future.

Our overall recommendation on retirement is to leave the current program unchanged. It has served us well. We project through our economic modeling that without a substantial offset, such as lump sum investment, increased reenlistment bonuses, or educational benefit transferability to family members, changes to the current system will have a negative impact on future recruiting and retention.

As a final point on the retirement system, the FY86 Authorization Bill directed the Department to submit legislation to achieve a $2.9 Billion savings by changing the military retirement system for new personnel. The Department submitted two alternative retirement system proposals, but legislation has not been enacted. In the meantime, service members are entering the service under the present retirement system which requires a restoration of the funds. If Congress does not lift the cap on obligations, or change the retirement law, the Army would have to reduce its forces this fiscal year by 120,000 Active and 112,000 Reserve Component soldiers.

The Army faces a significant challenge in the alignment of Non-Commissioned Officers by grade and skill. Through improvements in our promotion, reenlistment and reclassification programs, we have made great strides this past year. (Chart 6)



FORCE ALIGNMENT PLAN (FAP) I
FY 85-86

PROGRESS TO DATE
(MOS/GRADE LEVEL OF DETAIL)

SEP 83
MOS/GRADE CELLS
OPERATING FILL

	BALANCED (96-105%)	TOTAL
E5	37	296
E6	38	265
E7	31	186
E8	21	77
E9	7	56
TOT	134	678
%	15%	

SEP 84
MOS/GRADE CELLS
OPERATING FILL

	BALANCED (96-105%)	TOTAL
E5	59	312
E6	49	281
E7	37	199
E8	20	84
E9	11	59
TOT	176	936
%	19%	

SEP 85
MOS/GRADE CELLS
OPERATING FILL

	BALANCED (96-105%)	TOTAL
E5	100	318
E6	92	287
E7	41	201
E8	11	84
E9	11	58
TOT	255	948
%	27%	

SOURCE: DAPC-45

We consider the resources in our selective reenlistment bonus program a key incentive in reducing shortages and improving alignment.

To reduce personnel turbulence caused by an individual replacement system and increase unit cohesion, we have continued the expansion of our New Manning System.

Our Regimental System provides soldiers an opportunity for affiliation with units they voluntarily select. The regiment provides the unit for career development and opportunity for homebasing. In 1985 we had 15 active combat arms regiments. Our plan calls for an additional 49 regiments during FY86.

Evaluated units of our combat arms COHORT program continue to reflect vastly improved cohesion and psychological readiness for war. This can be attributed to greater horizontal bonding between soldiers who begin training and remain together for their 3 year initial unit assignment. Commanders have more time to develop long range training strategies to meet higher performance standards than experienced previously with units manned through the individual replacement system. By the end of FY86 our goal is to have 70 companies and 22 battalions in the COHORT system.

As we exploit new technologies during our modernization period, we must ensure that the human capabilities of our soldiers are considered throughout the development process. Too often in the past we have assumed the human factor as a constant by simply ignoring their mental and physical frailties and cognitive workload requirements. As a result, systems have not always achieved the desired performance level, and either more manpower has been required or the soldier has required extra training.

Our new program to better integrate manpower, personnel and training issues with materiel development is called MANPRINT. Our MANPRINT goal is to cause the Army and industry to respond, day after day, to considerations of manpower, personnel, training, human factors engineering, health hazard assessment, and system safety throughout the materiel acquisition process. Our primary emphasis, however, is on front-end analysis. Our target is to identify people requirements early on to minimize costly product improvements down the road.

Never before in our history has the Army been blessed with so many opportunities and challenges. At such a juncture it is important for us to reexamine and rededicate ourselves to the core values which have been responsible for the many successes in our proud history. 1986 will be the Army Year of Values. Throughout the year our leaders will exercise intense effort to develop in their soldiers the fundamental national values which are embedded in selfless military service to this great United States of America.

Mr. ADDABBO. Admiral Carlson.

SUMMARY STATEMENT OF ADMIRAL CARLSON

Admiral CARLSON. Thank you, Mr. Chairman.

I would like to, on behalf of the Navy, thank the committee for the support that you have given us in the past, in realizing the end strengths we have needed, the ship construction and the manning necessary to fill the ships. The readiness that we are glad to report to you is due in very large measure to the actions of this committee.

This year we are asking for an increase in end strength to man the ships, which you have appropriated for in the past, and I am pleased to report we will have 20 new ships joining the fleet this year; 15 new aircraft squadrons standing up. At the same time, we will be taking out of the service 7 ships and 6 squadrons, for a net gain of 13 ships and 9 aircraft squadrons.

Three new *Ticonderoga* Class cruisers will be joining the fleet; 5 *Los Angeles* Class nuclear attack submarines, and one new *Ohio* Class SSBN will be joining the fleet. We will be manning two mine sweepers; finishing the manning of the crew in an attack aircraft carrier, USS *Theodore Roosevelt*; adding a thousand people to our helo squadrons in the helicopters that you have appropriated for in the past. We are rapidly approaching the 600-ship end strength which has been deemed appropriate to meet the needs of this maritime nation. And, of course, this is all done through the fine, dedicated sailors we have that man our fleet.

If you want to know what those sailors are doing, you can read the paper and see where they are at sea representing this nation worldwide. We have fine sailors, such men as Daniel Dias, an OS-3 from the Bronx, New York. He has been in the Navy four years. Two and a half years have been spent at sea on the USS *Trippe*. His replacement would require us to train five more people, and cost in terms of training is $40,000.

He says to us the hardest part of being at sea is not being able to "shoulder my share of the burden of raising a family."

Our readiness is being carried by those men out there. We have Mark Kozinski from Erie, Pennsylvania, an E-5 radar technician and operations specialist. He has been in the Navy eight years. Three years of those have been spent at sea.

He says, "Sea duty in itself is hard physically, mentally and emotionally. You add the families and a lot of stress is involved." These are the people who are manning the fleets. I am here to represent them. The contributions you make, whether it be in hardware or retirement funding, impacts on the people. The people give us the Navy that we are proud to represent.

[The statement of Admiral Carlson follows:]

Statement of
Deputy Chief of Naval Operations for Manpower, Personnel and Training

Mr. Chairman and distinguished members of the Subcommittee

I am Vice Admiral Dudley Carlson, Deputy Chief of Naval Operations for Manpower, Personnel and Training, and the Chief of Naval Personnel. This is the first year I have had the opportunity to testify in support of the Navy Total Force Manpower Program, and I am looking forward to continuing the dialogue you established with my predecessor, Admiral Bill Lawrence, over the past two years.

My statement describes the Navy's manpower program for FY-87 in terms of its active military, reserve military, and civilian manpower components. It also depicts manpower, personnel and training initiatives and explains the changes from FY-86 to FY-87. Before I discuss the specific aspects of the FY-87 request, I would like to make some overall observations:

The Navy manpower program is based on the force structure required to accomplish Navy missions within the scope of our national political and military strategy. The United States remains committed to building a 15 carrier battle group, 600 ship fleet that can execute the nation's military strategy. My job is to man these new ships and squadrons as they come on-line, and simultaneously to increase the personnel experience base in order to support a substantially larger and more technically complex Navy by the end of the decade.

Reduction to the FY-86 personnel request continues a trend which will ultimately lead to critical inventory shortfalls, an eroded base of petty officers, and readiness degradations similar to those of the 1970s. Their exodus caused a breach in our mid-management and experienced ranks which we are only now closing.

People remain the key to readiness. They are the mainstay of every aspect of our operations. Without the right number and caliber of people, even our most sophisticated equipment and weapon systems can be rendered ineffective. To get the most from our equipment and systems, we must get the manpower to match.

Once the manpower resources are authorized and funded, we have to attract and retain the quantity and quality of people we need. Our ability to do this depends on several factors, such as the public image of military service, the state of the economy, and the quality of life of military personnel and their families. The Navy has moved aggressively to influence those factors which are under our control. Because of the sea-intensive nature of our mission, the focus has been on lessening the hardships of sea duty. We have established firm standards for optempo reduction in a major effort to complement retention incentive programs you have approved. This initiative is only possible, given our world-wide commitments, because of a larger and qualitatively improved fleet. Additionally, we have sought to improve the appeal of Navy life by reducing burdensome administrative duties.

The Navy operates on the front lines of a global environment characterized by a continuum of potential conflicts and violence. As a consequence, the conditions of service for our Navy personnel are unique. High tempo, far-flung operations demand an exceptional degree of unit self-sufficiency and the support structure to maintain it. Navy's successful acomplishment of recent international missions bears testimony to this need. Sufficient numbers of properly trained and experienced people, in both at-sea and crucial fleet support shore billets, are essential to combat readiness and war fighting capability.

The FY-87 Manpower and Personnel portion of the Navy budget has been developed to ensure an appropriate balance between readiness levels required to support worldwide commitments within limited resources and an acute awareness of the need to reduce the size of the budget deficit.

STRUCTURING THE FORCE

Navy Total Force Management. The primary concern in setting the proper mix of Active, Reserve and Civilian forces is the maintenance of the level of readiness necessary to meet peacetime commitments and war plan requirements. Historically, our maritime strategy has been one of forward deployment. This strategy necessitates the continuous overseas presence of a significant portion of the fleet in peacetime and requires that our units be maintained in a high state of combat readiness. While many Army and Air Force units are required to forward deploy in strength only after mobilization, U.S. maritime strategy calls for a forward deployed combat ready fleet in peacetime. This basic distinction between the Services is fundamental to understanding the differences in policy with respect to Total Force mix.

Today's environment is one of expansion and change for both the active and reserve components of the Navy. Within this environment, the Navy's leadership is fully committed to supporting balanced growth and accommodating cost-effective changes.

Active Military Manpower

The Manpower strategy to support 600 ships was first reflected in the May 1981 Five Year Defense Program (FYDP). That plan called for achieving the bulk of the approximately 90 thousand billet growth by FY-86 for three principal reasons:

- To reduce the then existing 22 thousand shortfall of petty officers as quickly as possible
- To build the experience base needed for the expanded fleet at the end of the decade
- To take maximum advantage of existing economic conditions and demographic circumstances which favored recruiting and retention.

Today, the total strength required to support 600 ships has not changed. What is different is the rate at which we are attaining the growth, which has been constrained by pressures to reduce overall defense spending.

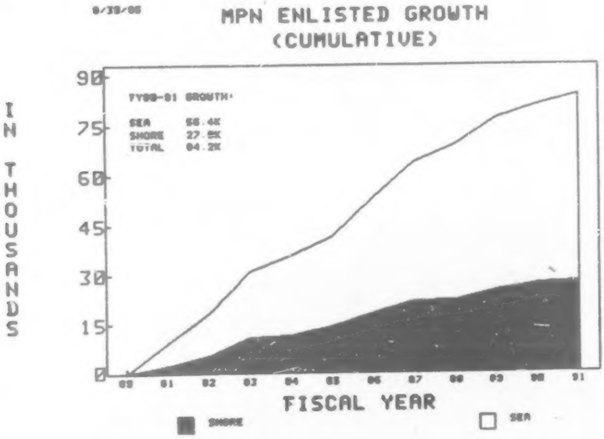
FIGURE 1
Active Military End Strength Growth

	PRES BUDGET	AUTHORIZED	DIFFERENCE
FY-83	569,200	560.300	-8,900
FY-84	572,200	564,800	-7,400
FY-85	575,300	571,300	-4,000
FY-86	586,300	581,300	-5,000

The high outlay rates associated with the military pay accounts have made personnel resource requirements particularly vulnerable to near-term budget reductions. As a result, we have before us more extensive recruiting requirements than originally planned that must now occur in the less favorable budget climate of the future. This "time late" in achieving required manpower growth represents an experience shortfall - fewer personnel acquiring skills now to provide senior technical leadership in the future. This smaller experience base places additional burdens on the personnel system to retain higher percentages of critically skilled personnel. Savings from previous strength reductions have translated to increases in special pay and bonuses to avoid the hemorrhage of career personnel, as occurred in FY-78,79 and 80.

Navy's shore support structure is unique. In addition to its critical role in supporting and sustaining the operational forces of the Navy at sea, it serves as an integral part of the sea-shore rotation equation.

FIGURE 2



Over 50 percent of our personnel now spend more than four years on sea duty for every three years ashore. We presently have 18 ratings that spend five years at sea before rotating ashore.

Active Force growth in this decade is focused on teeth, not tail. Navy's combat-to-support ratio has improved since force expansion began. It was 1.60 in FY-80, is 1.82 today, and will be 1.87 in FY-90. The Navy today is a lean, efficient, operationally-oriented force and will be even more so by 1990.

Against this background, 90 percent of the FY-87 end strength growth (10,853) is programmed for strategic, tactical and mobility forces. An additional 3,116 billets, 54 percent of which will perform medical functions, will go to units with direct fleet support missions. Efficiencies in the training pipelines permit a decrease of 2,569 in the Individuals Account, yielding a net active military end strength increase of 11,400.

The decision to provide manpower was implicit in earlier hardware procurement decisions to reach the 600 ship Navy objective. Failure to provide the people at this juncture jeopardizes system effectiveness, introduces costly personnel inefficiencies and adversely affects combat readiness. We have already experienced the devastating readiness impact that occurs when affordability constraints translate into attainability problems. It can happen again.

Reserve Military Manpower. We have moved forward aggressively to integrate Naval Reserve Forces with Active Naval Forces where we could achieve potential cost savings without a degradation in readiness. The result has been a more effective total fighting force for a modest increase in funding.

Modernization of weapons systems and increased roles for the Naval Reserve particularly in the surface, medical and construction battalion (Seabee) communities, have translated into a 13 percent rise in mobilization requirements from FY-82 to FY-86. Rapid growth in Selected Reserve strength is bringing us closer to our goal of achieving Navy Manpower Mobilization System (NAMMOS) requirements by the end of FY-88.

Additions to the Naval Surface Reserve will bring total Naval Reserve ships to 43 in FY-87 and to more than 70 by the early 1990's. Of the 9,119 Selected Reserve growth requested for FY-87, over 4,000 are required to fill shipboard and supporting staff and shore billets.

You are already aware of the Defense-wide initiatives to strengthen in-theater combat medical support. Accordingly, Navy has programmed twenty-three field hospitals. Fifteen of these units will be manned by The Selected Reserve (SELRES), requiring approximately 17,000 SELRES billets. By drawing from the nation's practicing civilian doctors, nurses, and technical and support personnel, the Naval Reserve will avoid more costly and time-prohibitive alternatives. Reserve Seabee growth in FY-87 and beyond reflects the impact of Seabee support to field hospitals.

For FY-87, we need an increase of 12,992 in Total Selected Reserve average strength, including 3,561 additional full-time support personnel. This growth is an integral part of our plan to meet the NAMMOS calculated requirements for Selected Reservists by the end of FY-88 and to ensure these assets are properly trained. Reserve Force growth is illustrated below:

FIGURE 3
FY 87-91 Reserve Force End Strength

	FY-87	FY-88	FY-89	FY-90	FY-91
Paid Drilling Reservists (including training pipeline)	132,503	139,359	141,000	142,456	142,601
Active Duty Support (TARs and SECT. 265)	21,647	23,954	25,551	26,251	26,464
Temporary Active Duty (TEMAC)	1,550	1,587	1,674	1,677	1,677
End Strength Total	155,700	164,900	168,225	170,384	170,742
(Average Strength)	147,500	159,000	165,889	168,489	169,757

In 1983 the Sea and Air Mariner (SAM) program was developed to access 10,000 non-prior service reservists per year into the Selected Reserve to fill E1-E3 mobilization billet requirements. Recruiting goals were met in both FY-84 and FY-85. To meet Selected Reserve junior officer requirements, a parallel officer program (OSAM) was established in FY-85 to access college graduates into the officer corps. These officers will spend time on active duty before becoming drilling reservists.

In the past, TAR retention has been sufficient to maintain the force at required levels. Now, as we continue to expand our Naval Reserve and as the TAR program grows to support 26 Naval Reserve frigates and associated intermediate maintenance activities, the demand to fill highly technical, mission-essential ratings will increase as well. Not surprisingly, these ratings require skills which are aggressively sought after in the private sector. To promote our ability to man the active duty portion of the Naval Reserve Force, we have requested authority to pay a Selective Reenlistment Bonus (SRB) to a limited number of TAR personnel in critical ratings. Further, we are requesting authority for a modest Unit Incentive Pay for Selected Reservists to allow Navy to provide an incentive to individuals affiliating with certain hard-to-man units in the Naval Reserve. This Unit Incentive Pay is designed specifically to increase manning levels and improve retention in Naval Reserve ships and is critical to our ability to continue the growth of Reserve strength to programmed levels.

The Individual Ready Reserve (IRR) comprises 27 percent of the total Naval Ready Reserve and represents over 70,000 mobilization assets. Efforts are underway to expand the potential for this category of experienced, pre-trained manpower. The introduction of a bonus program for selected IRR ratings, increased emphasis on training and extension of the military service obligation from six to eight years will add significantly to IRR growth and mobilization readiness.

Accomplishments in Total Force management are increasingly crucial to carrying out the maritime strategy. The Reserve already contributes to a majority of the Navy's total missions, and we have developed a system that ensures that we can wisely incorporate a growing Reserve into the total force. The President's 100,000 man call-up authority however, is insufficient to provide the Navy the necessary augmentation force during circumstances short of a declared national emergency. Until the Navy can rely upon increased augmentation as a result of expanding the authority to 200,000, further initiatives in reserve integration will become increasingly difficult.

Civilian Manpower. Navy's civilian manpower component continues to be an essential element in our Total Force Management Program. Most civilian employees are employed in activities directly related to our readiness posture. More than half work in industrial fund activities which perform depot level maintenance and repair of ships, planes, and associated equipment. Civilians employed at operation and maintenance activities such as supply centers, ship repair facilities, and Naval and Marine Corps aviation activities contribute directly to operational readiness. Civilians also provide essential support in functions such as training, medical facilities, and the engineering development and acquisition of weapons systems, which have a definite, although longer range, impact on readiness.

We intend to execute the Navy's expanding mission and scope of operations with an essentially stable level of civilian manpower in FY-86 and FY-87. Our estimates for both of these years are below the FY-86 civilian manning level approved in last year's budget. Within our FY-87 civilian manpower request of 318,377, the Navy has been able to provide for new program requirements by means of various management initiatives and through vigorous pursuit of manpower economies and efficiencies.

Management action to streamline organizations and program responsibilities, including the disestablishment of the Naval Material Command and the reorganization of the Naval Systems Command and Navy training organization, has contributed significantly to this effort. Further, major savings attributable to the Commercial Activities and Efficiency Review Programs have enhanced our ability to optimize the use of our limited overall manpower resources.

In FY-85 Navy completed Commercial Activities studies in conformance with OMB Circular A-76 on 2,500 civilian positions with total savings of some 1,400 positions, either through decisions to convert to more cost-effective contractor performance or through implementation of "most efficient organizations" for those functions which remained in-house. These savings have been incorporated in our estimates. We plan to study approximately 4,500 military and civilian positions each year in FY-86 and FY-87. In accordance with congressional direction, no adjustments have been made for anticipated contracting-out decisions.

The Navy also anticipates savings from implementation of the Efficiency Review Program in which in-house functions excluded from study under OMB Circular A-76 are being reviewed to develop the "most efficient organizations." We project savings of about 850 in FY-86 and an additional 1600 in FY-87 based on planned efficiency reviews.

The end strength estimates for industrial fund activities incorporate further reductions in FY-86 and FY-87 associated with initiatives to improve efficiency and productivity in industrial fund operations. These savings will be achieved through improved scheduling to realize the most efficient working tempo, optimum use of overtime, reductions in overhead, and other measures.

Civilian staffing adjustments in FY-87 will allow the placement of civilians into numerous positions currently filled by military personnel, who can then be reassigned to more critical operational billets with a direct impact on readiness. Additional civilian positions will be dedicated to management and oversight of spares contracts, thus improving the integrity of our procurement operations. Civilians will be added to improve the physical security of our bases and stations. Other adjustments in industrial activities will ensure that work force and workload are in balance. Manpower levels for aircraft maintenance, ship repair/overhaul and Naval laboratories have been reduced to match workload, while more manpower will be needed to man additional ships in the Military Sealift Command. Among other adjustments are increases to oversee our growing military construction/facilities acquisition programs, expanded ordnance workload, and requirements for classified programs.

Other Manpower Management Initiatives

We can report progress in our continuing efforts to improve manpower, personnel and training management policies and practices to ensure that the methods by which we do business are supportive of our objective to improve force manpower management while keeping pace with force structure growth. Specific examples of progress made over the past year follow:

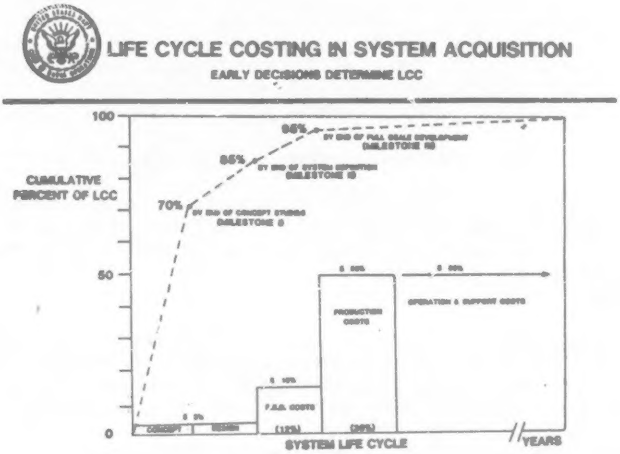
Manpower Requirements Determination. In order to improve the management of manpower resources and better quantify our needs, the Navy Manpower Engineering Program (NAVMEP) was developed to coordinate all manpower requirements determination within the Navy. The best aspects of several manpower programs have been consolidated under NAVMEP; these include: the Ship and Squadron Manpower Document Programs; the Efficiency Review (ER) Program; the streamlined Shore Manpower Document Program (SHMD): and the Commercial Activities (CA) Program. The major impact of NAVMEP will be in the development of manpower efficiencies in shore activities. NAVMEP achieved the goal of 100% shore requirements coverage in December 1985 using various industrial engineering techniques such as staffing standards, manpower estimating models, efficiency review studies and industrial engineering surveys. We are now employing more rigorous and iterative techniques, to refine our requirements baseline by incorporating efficiencies, thereby increasing productivity and readiness. NAVMEP will relate these refined manpower requirements and funded authorizations to funded programs, while continuing to identify more efficient methods of organization and manpower utilization.

Training Management. The focus of the Navy's training management system has graduated in scope in the past four years to emphasize both front-end analysis of training requirements and overall performance. The Fleet Training Assessment Program monitors the effectiveness of our training programs, and increased emphasis has been placed on ensuring the training community can accommodate existing and future requirements while conserving training resources. The reorganization of the Office of the Chief of Naval Education and Training (CNET) was a significant change in support of this effort. Internal CNET directorates and staff were reduced by one-half, bringing the organization more in line with current functional management requirements. We have taken great strides in developing a Navy training strategy that supports the types of operations we envisage in our maritime strategy. Some areas that were clearly deficient, such as reserve training, physical security, antiterrorist training, and battle group tactical training, were specifically strengthened last fiscal year.

HARDMAN Program. Perhaps the most significant progress made in our ability to manage and control manpower and training requirements growth rests with the Hardware-Manpower Integration (HARDMAN) Program.

Manpower, personnel and training (MPT) costs account for more than one-third of the total life cycle costs of weapon systems acquisitions. As noted in Figure 4, the opportunities to meaningfully reduce life cycle costs occur early in system development.

FIGURE 4



We have developed the capability to make hardware-manpower tradeoffs and to identify resultant manpower, personnel and training requirements commencing at the earliest stages of system development. The Navy HARDMAN Program will enable MPT affordability and supportability to be assessed before acquisition development and procurement decisions are made. Commencing this fiscal year, the rigors of HARDMAN analyses will be applied to all new starts in all acquisition categories. Full consideration of MPT implications of proposed acquisition programs, individually and in the aggregate, will contribute measurably to our ability to sustain personnel readiness over the long term.

Materiel Professional Program. This past year we instituted the Materiel Professional (MP) program, a new officer career path, to carry forward the results we have achieved in the management of our national defense resources. We have achieved a reduction of waste in naval shipbuilding, delivery of equipment ahead of schedule and under budget, and a 60 percent increase in contracts awarded competitively. The Navy "blue suiter" is absolutely essential to Navy's materiel management, providing both continuity and an operational perspective. This new career path is developing the same level of professionalism in materiel management that we have in warfighting.

Representative of the importance of the MP program and the quality of MP officers themselves, the MP community now includes one admiral (the Vice Chief of Naval Operations), six vice admirals, and 61 rear admirals, as well as 771 captains and over 70 senior commanders directly responsible for the management of the materiel processes. We are selecting the highest quality officer, with training and experience to get the job done right. Once selected these officers are dedicating themselves solely to the function of materiel management. Today, we have over 900 Materiel Professionals who have the credentials, dedication and talent to ensure past successes are continued and further improvements are made.

Research and Development. The human element of combat makes up a significant portion of our overall fighting capability. We must always guarantee the people component of combat effectiveness remains strong. Modernization of training and optimal utilization of our people can be accomplished through a strong Research and Development (R&D) program. We have developed a new MPT research and development program structure and master plan designed to provide Navy guidance to our performing scientists. The R&D Master Plan will provide more productive use of R&D products by strengthening the link between resource sponsors, eventual product users, and laboratory scientists. We are optimistic that this approach will facilitate the successful transition of R&D

products from the laboratory to the field. Although personnel and training costs account for a significant portion of our total Defense expenditures, Navy MPT R&D accounts for less than one-half of one percent of the total Navy RDT&E appropriation. We need your support in the Congress to maintain these small but vital R&D resources at currently programmed levels.

Information Management. There are solid examples of productivity increases and savings as a result of innovations in information management. Improvement in the timeliness of data transfer through better data interfaces has reduced non-productive time spent awaiting orders. Also our capability to provide pay, personnel, and training information among fleet, shore stations, and headquarters is greatly enhanced through the MPT field systems, such as the Source Data System (SDS) and Navy Civilian Personnel Data System (NCPDS). The implementation of SDS will result in greater efficiencies in the management of the Military Personnel, Navy appropriation. Not directly measurable, but nonetheless of tremendous value, is the morale of our Navy people. People are our most valuable, as well as expensive, resource and their morale is impacted by the quality and timeliness of information which affects them directly (e.g. pay, promotion and duty assignments).

Effective management, through information systems, like the Total Force Manpower Management System (TFMMS) and the Manpower Claimant Access Support System (MANCLASS), will have a positive effect on their welfare and influences career decision-making.

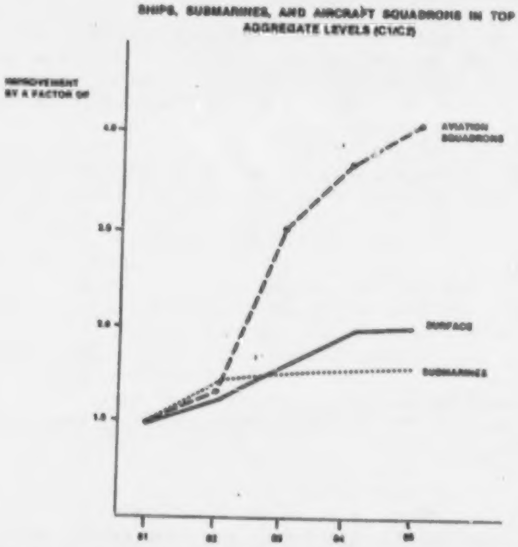
Flag Officer Management. Although the Defense Officer Personnel Management Act established key management elements for flag officers, comprehensive flag officer management guidelines do not exist. We again solicit congressional support for the DoD legislative proposal to establish a new framework for the management of flag and general officers. The comprehensive flag officer proposal submitted to this and the previous two sessions of Congress, will provide Navy the necessary flexibility in meeting the critical demands of an expanding and more technical naval force without the annual requirement of petitioning Congress for three-star grade relief. It provides the structure and accountability required for effective congressional oversight, and the flexibility necessary to optimize senior military management resources. The legislation is the foundation of an effective long-term flag officer management system. It establishes stability, predictability, and the versatility to respond to changing end strengths. The increased flexibility inherent in the system will enhance Navy's ability to meet its joint arena and external DoD requirements without detracting from the operating forces.

POPULATING THE STRUCTURE - PERSONNEL READINESS

Readiness. I am extremely pleased with the improvements in operational readiness levels since 1981. By any credible standard of measurement, fleet readiness is up dramatically. One way to look at this is to aggregate selected logistic support inputs -- personnel, equipment, supply support, and training levels -- across mission areas which a ship or unit must perform, such as anti-air warfare or anti-submarine warfare. As Figure 5 shows, the number of aircraft squadrons at the highest two levels of operational readiness has tripled, and the number of ships has doubled. This accomplishment is particularly striking when compared to pre-1981 negative trends. I believe that we are approaching the achievable limits of unit readiness, which we must now sustain over the long term.

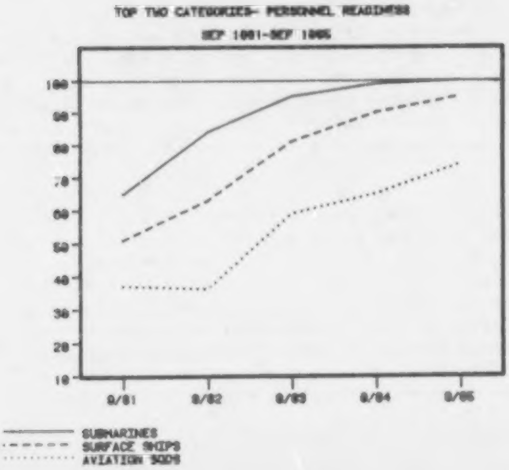
FIGURE 5

IMPROVEMENTS IN LOGISTIC SUPPORT READINESS



Personnel Readiness. While each of the functional components of overall readiness has shown marked improvements, personnel readiness has been the most noticeable growth area. Since 1981, we have almost doubled the number of ships in the highest two classifications of personnel readiness. This is a qualitative and quantitative measure which gauges not only the number of sailors aboard a ship, but also their skills and experience. Over the past five years, our career enlisted force experience level has risen over 38 percent. In FY-85, 90 percent of the aggregate of ships, submarines and squadrons were manned by crews composed of the quantity and quality of sailors required to properly operate the ship to its warfighting limits. Figure 6 shows the average personnel readiness for FY-81 through FY-85.

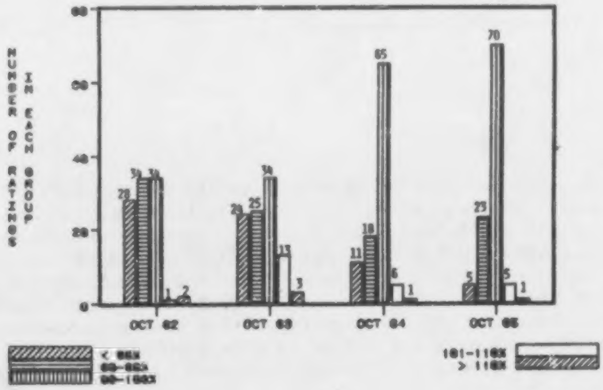
FIGURE 6



The number of ships reporting in the two highest categories of personnel readiness in FY-85 increased to 95 percent from 90 percent in FY-84, and up from 51 percent in FY-81. No submarines have had a personnel readiness level lower than the top category in almost two years. The personnel readiness in our aviation squadrons has also shown a steady improvement. For FY-85 the average number of squadrons reporting in the top two categories has increased to 74 percent from 65 percent in FY-84, and from 37 percent in FY-81.

Solving Skill Mismatches. As our experience levels and petty officer inventories have increased, we have been able to focus more management attention on balancing inventories. Specifically, this has meant ensuring that we were not recovering from our deficits in the aggregate by creating over-manning in some skill areas while shortfalls in other skills continued. By careful monitoring of our advancement, skill entry, and reenlistment policies, we have corrected imbalances as noted below. Our remaining challenge is to increase our inventories in the undermanned ratings.

FIGURE 7
RATING MANAGEMENT EFFICIENCIES



I want to emphasize the important interrelationship of personnel readiness to all other components of readiness. Because our crews are more experienced, our training levels remain consistently high and our ability to maintain our equipment has improved dramatically. This improvement in personnel readiness is unquestionably the driving force behind markedly improved overall readiness. Obviously, this progress could not have been made with the help of only one annual appropriation. It has taken consecutive years of successful recruiting, training, and retention to arrive at acceptable personnel readiness levels. It will take continued support over the long term to sustain them.

Recruiting. As predicted in last year's report, we attained sufficient recruit numbers to meet goal but these numbers were of lesser quality overall than in the previous year. In the specific accession area of the 73,000 non-prior service males who joined the Navy in FY-85, 64.8% were classified in the Upper Mental Groups (UMG) on the Armed Service Vocational Aptitude Battery (ASVAB), and 88% were high school diploma graduates. This equates to a decline of 4.3% in UMGs and 4% in high school diploma graduates (HSDGs) from our FY-84 attainment. This moderating trend in quality attainment continues to be reflected in the statistical results for the first quarter of FY-86.

FIGURE 8

ONE-NAVY ENLISTED RECRUITING
QUANTITATIVE RESULTS (1)

	FY77	FY78	FY79	FY80 (2)	FY81	FY82	FY83	FY84	FY85
GOAL	116,314	94,755	93,300	96,290	106,230	94,793	84,795	82,907	87,900
ATTAINED	111,887	89,000	88,345	96,361	106,323	94,793	84,794	82,907	87,892
% ATTAINED	96.2	94.0	94.6	100.1	100.1	100.0	100.0	100.0	100.0

QUALITATIVE RESULTS (3)

	FY77	FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85
HSG (4)	79.0%	83.2%	84.0%	82.6%	87.3%	89.9%	90.0%	90.5%	94.0%
HSDG	72.8%	77.1%	77.4%	74.8%	75.8%	78.7%	91.1%	93.0%	88.0%
MGI-IIIU (5)	73.2%	74.0%	71.6%	76.0%	84.5%	85.8%	70.1%	69.7%	65.1%

NOTES:

(1) INCLUDES ALL PRIOR SERVICE AND NON PRIOR SERVICE ACTIVE DUTY MALE AND FEMALE ACCESSIONS.

(2) REVISED RECRUITING POLICY IMPLEMENTED. NON PRIOR SERVICE MALE ACCESSIONS TO BE 74% MENTAL GROUP I, II AND IIIU VICE 79% HSDG.

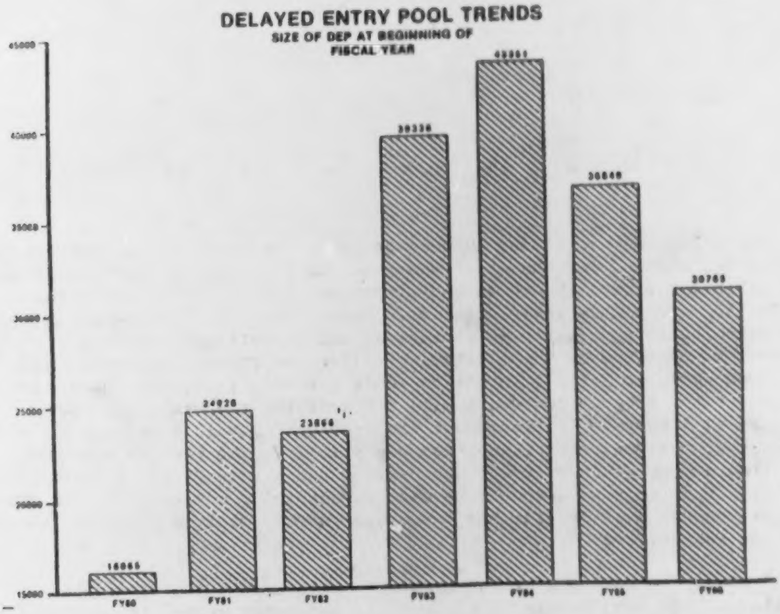
(3) QUALITATIVE RESULTS ARE PERCENTS OF NON PRIOR SERVICE ACTIVE DUTY ACCESSIONS.

(4) HIGH SCHOOL GRADUATES (HSG) INCLUDE DIPLOMA GRADUATES (HSDG) AND THOSE PERSONNEL WHO VALIDATE A HIGH SCHOOL EDUCATION AS A RESULT OF TESTING OR HAVE COMPLETED AN ACCREDITED HOME STUDY COURSE.

(5) FY-81 AND LATER FIGURES REFLECT RENORMED ASVAB DATE.

A primary bellwether of recruiting trends is the Delayed Entry Pool (DEP), the group of recruits who have agreed to enter the Navy at a later date. This pool, composed largely of highquality applicants, provides a recruiting buffer, serves as a management tool to optimize the loading of training facilities, and provides sailors who historically have the highest potential for success in the Navy. Annual changes in the DEP, therefore, have wide-ranging impacts. Since the total contracts written last year were again fewer than accession needs, the Navy was forced to draw from the Delayed Entry Pool to achieve the required quantity. The DEP decreased by 5,884 applicants in just one year, as shown in Figure 9. This continual drawdown of the Delayed Entry Pool is not only a significant indicator of an already more difficult recruiting environment, but also indicates potential problems in the quality level of future accessions. The DEP is not simply an undifferentiated pool from which to draw in difficult recruiting months but is key to our ability to recruit highly qualified accessions over the long haul and program them into technical training at the appropriate rates.

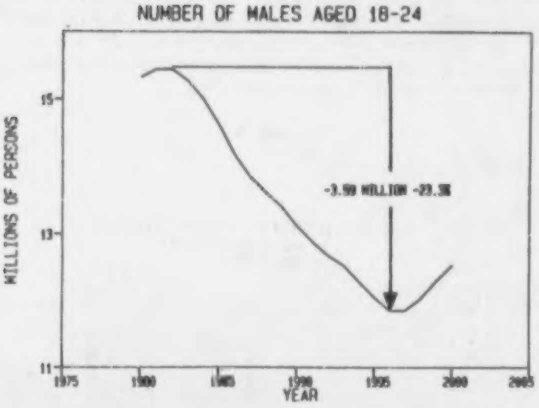
FIGURE 9



The total number of non-prior service male accessions required in FY-87 will be about 4 percent higher than FY-86, due to end strength growth and a slight downward trend in retention. Quality attainment will decrease but will remain at or above the minimum requirements to meet our training needs and maintain a quality of force.

We are concerned that trends are down and long-term demographic indicators portend a worsening recruiting environment. Since 1981 the population of young men from which we traditionally recruit has declined by 5.4 percent, and it will decline by another 17.9 percent before it bottoms out in 1996. Therefore, we must recruit an increasingly higher percentage of the diminishing youth population. But recent surveys show that this group's positive propensity to join the Navy is declining. Many of the causes of this decline are not within our control, but at least two are: advertising programs and recruiting manpower. To continue to meet recruiting goals we must ensure adequate resources for these two key areas.

FIGURE 10



As stated last year, our success has been notable, but the recruiting market has changed for the worse and shows no prospect of improvement in the foreseeable future. The three most important factors influencing recruiting production are all decidely negative. Unemployment is low and going lower, the recruitable population is shrinking, and competition from the private sector, as measured by the military-civilian pay ratio, is increasing. We will successfully achieve accession goals for this year, but the production of Delayed Entry Program contracts will not meet the targets set to support entry into FY-87. Despite initiation of the strongest possible management actions to squeeze maximum performance from every dollar, the goal of accessing the required number of recruits of appropriate quality in FY-87 is in doubt. Quality is defined as adequate to meet our school requirements. The FY-87 budget request will provide the resources to meet minimum required quality, not maximum desired.

Enlisted Retention. One of our greatest achievements and continuing challenges has been retaining the quality personnel needed to man the 600 ship Navy. As shown in figure 10, we have continued to do well but did not achieve the high retention rates of FY-84.

Figure 11
ENLISTED RETENTION RATES

	FY-82 Actual	FY-83 Actual	FY-84 Actual	FY-85 Plan	FY-85 Actual	FY-86 Plan
1st Term	50.3%	55.7%	58.0%	57.5%	54.6%	55.5%
2nd Term	63.0%	65.4%	64.4%	66.0%	63.9%	64.7%
3rd Term	95.3%	96.6%	94.9%	95.0%	93.4%	94.3%

It is useful to reflect on the recent past in order to provide perspective to our current circumstance. In 1980 we were caught in a downward retention spiral. Inadequate pay had, over time, produced cumulative recruiting and retention shortfalls, which in turn led to unavoidable ship and squadron manning problems. To compensate, we had to increase sea tours and supervisory workload, which further aggravated the retention problem. It is not surprising that large numbers of our people opted for higher paying and less demanding opportunities in the civilian sector. For the past few years we have benefited from the reverse of this spiraling effect. As our inventories increased, we stabilized sea/shore rotation and were able to provide a more reasonable working environment in our ships and squadrons. The point we would make about this cyclical nature of retention is that we must be extremely sensitive to any change in the trend we have experienced for the past few years. As we have learned, it is extremely difficult, and expensive, to stem a downward spiral, and to recover from the most damaging effect of all - decreased combat readiness.

Economic recovery and concurrent improvements in civilian employment opportunity have increased the competitiveness of the market place. Competitive compensation, retirement system stability, selective reenlistment bonus funding, continued education opportunities, quality of life issues, and other benefits will be major determinants shaping the retention decisions of our service members and molding the overall retention climate for the rest of this decade.

Retention and the Selective Reenlistment Bonus (SRB) Program. The Selective Reenlistment Bonus (SRB) program continues to be central to our successful retention program. It is the key element in reducing manning shortfalls in those critical skills most in demand in the civilian sector. SRB also promotes long-term rating stability by encouraging longer enlistments (5.14 vice 3.89 years average length first term enlistment). In addition, every dollar invested in SRB saves approximately $2.50 in training and replacement costs and prevents the loss of an experience base that cannot be replaced quickly at any price. Because of the importance we attach to SRB, it was particularly gratifying to see a recent GAO report confirm that the Navy is managing its SRB program well. We concur with GAO's observation that the program could be even more cost-effective if congress were to approve a return to the lump-sum method of payment for SRB. The authority granted in the first session of this Congress to raise up-front payment from 50 percent to 75 percent was an important step in the right direction.

Bonus Program Authority. The two primary compensation incentives to attract and retain high quality personnel are the Enlistment and Selective Reenlistment Bonus programs. Since the present bonus programs were authorized, the laws have been extended for short periods in order to evaluate the merits and costeffectiveness of paying the bonuses. However, repetitive shortterm extensions create uncertainty that seriously hampers the ability of individuals to make their career decisions and of the Services to plan their long-range recruiting and reenlistment programs with any assurance that the authority will continue. We, therefore, fully support the DOD initiative to make these bonus authorities permanent. Congressional control can continue to be exercised through the annual authorization and appropriation processes.

Career Sea Pay has been a crucial factor in keeping experienced personnel at sea. Currently the three principal determinants of sea pay are pay grade, cumulative sea duty and consecutive time at sea. The present sea pay structure discourages personnel in sea-intensive, mission-critical skills, such as combat systems technicians and conventional and nuclear power-trained engineering personnel, from returning to lengthy sea duty tours after a brief shore duty break. We are now investigating ways to reallocate existing sea pay dollars to place more emphasis on the cumulative sea duty element of the sea pay equation.

Officer Retention. FY-85 reflected a decrease in the positive retention climate of 1983/4. Retention decreased from FY-84 levels in the surface, nuclear surface, pilot and NFO communities. Projected FY-86 retention indicates a drop for nuclear surface, pilot, nuclear submarine and GEN URL communities. The challenge to retain midgrade officers has intensified as industry competes for proven, talented officers in a steadily improving economy. Efforts to obtain compensation parity with civilian industry and enhance the quality of Navy life must continue in order to regain a positive officer retention climate.

Figure 12

UNRESTRICTED LINE OFFICER RETENTION RATES

	FY-82	FY-83	FY-84	FY-85	PROJ FY-86
Surface	43%	45%	50%	47%	47%
NUC SURF	21%	45%	42%	39%	39%
Pilot	49%	58%	56%	53%	48%
NFO	73%	74%	81%	73%	74%
NUC SUB	39%	46%	47%	48%	48%
GEN URL	44%	60%	59%	64%	63%

Pilot Shortages. One of the two most serious skilled officer manning problems is our inability to retain sufficient numbers of mid-grade experienced pilots. This shortage is now in excess of 1100 pilots with resignation activity continuing at very high rates. We lost 520 pilots in FY-85 due to resignations and are anticipating the loss of 550 in FY-86. This ominous trend is expected to continue through 1990 as the airlines further expand and replace retiring pilots. Future Airline Professionals of America (FAPA) states that 7904 (almost 2000 higher than was predicted 12 months ago) new pilots were hired in the past 12 months, and they forecast at least 6000 pilot hires in FY-86. The improving economy, mentioned previously, affords several alternative employment opportunities in lieu of Naval service and further compounds the problem.

Figure 13

AIRLINE HIRING TRENDS

FY	HIRES	EX-MIL	% MIL
1980	837	695	83%
1981	1330	944	71%
1982	843	590	70%
1983	2186	1301	60%
1984	5137	2054	40%
1985	7904	3700	47%

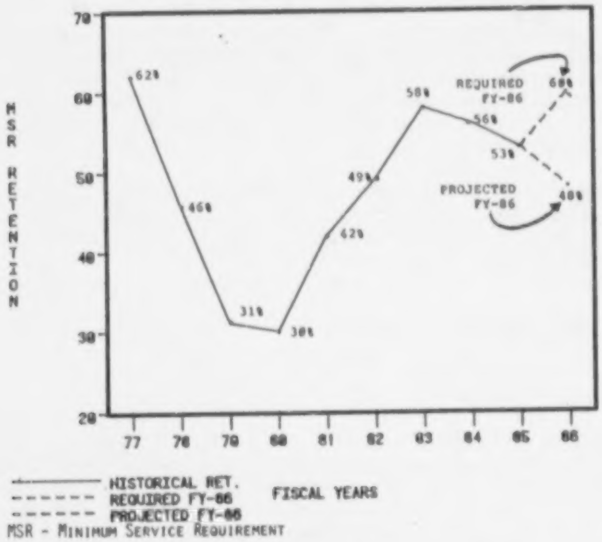
These LT and LCDR shortages are of major concern in the carrier aviation communities and are approaching serious proportions throughout our land-based communities. Thus far we have been able to manage this shortage through efficient distribution practices, but not without adverse impacts on other naval and career needs. Currently most pilots going to shore duty are assigned to the Training Command or Fleet Replacement Squadrons in order to train adequate numbers of new pilots. The pilots who do not resign during this initial shore duty tour are subsequently detailed to sea duty flying billets. While this may appear as a cost effective utilization of assets, it is disruptive to the officer's career needs, increases the propensity to resign in that initial shore tour and prevents us from using the pilot to fill other billets requiring aviation-experienced officers. Should this present resignation activity continue, as we anticipate, it will be difficult to meet minimum out-year cockpit-specific pilot requirements. Fleet readiness will be adversely impacted as we continually adjust to this growing pilot shortage.

We have actively pursued other management avenues which may help alleviate the present trend and help stabilize the out-year impact of continued low retention. We are increasing the utilization of the Selectively Retained Graduate Program (SERGRAD), where a pilot serves as an instructor for approximately 24 months immediately after he is so designated. Consideration is being given to increasing our accession source through the Naval Aviation Cadet (NAVCAD) program. This program qualifies candidates with two years of college for flight training and an eventual commission. Additionally, we have sought to improve the appeal of Naval service by reducing our operating tempo, stablizing carrier deployments, increasing in-port time, improving liberty and reducing burdensome administrative duties.

The only remaining area which will have an immediate positive impact, and one over which the Navy has no control, is compensation. The quantum improvement in pilot retention realized in FY-83 (58 percent from 49 percent in FY 1982), moderated slightly in FY-84 (56 percent) and continues downward through FY-85 (53 percent) and FY-86 (projected 48 percent). This drop is attributed, not only to airline industry hiring, but also the erosion in value since 1981 of Aviation Officer Continuation Pay (AOCP) and Aviation Career Incentive Pay (ACIP).

FIGURE 14

HISTORICAL PILOT RETENTION (MSR)



Inflation, concomitant ACIP reduction, and Hazardous Duty Incentive Pay (HDIP) restrictions have diluted the monetary incentive for 4 or 6 years of additional service, and the AOCP acceptance rate has steadily decreased from the 85 percent rate enjoyed in FY-81/82, to 55 percent in FY-84 and 39 percent in FY-85.

FIGURE 15
FY-84/85 AOCP ACCEPTANCE DATA

	FY-84			FY-85		
	Elig	Accpt	Rate	Elig	Accpt	Rate
PILOT	1285	644	50%	508	180	35%
NFO	520	347	66%	231	108	47%
TOTAL	1814	991	55%	739	288	39%

Legislative changes and improvements to AOCP are required to restore the effectiveness of this previously highly successful retention bonus. The major changes requested in FY-87 are:

- Increase contract payment rate from $6000 to $8400 per year.
- Elimination of ACIP reduction and HDIP restrictions while under contract (reduces value from $6000 to $2352/yr after taxes, if also eligible for HDIP).

- Elimination of 6 year aviation service requirement for basic eligibility. (overly restrictive)
- Expand 6 year contract eligibility window from less than 7 years to less that 8 years active duty.

Retention of experienced aviators has contributed to the record low aviation mishap rate Navy experienced in FY-84. The savings realized by preventing the loss of just one fleet aircraft offsets AOCP program costs for two years. It makes further economic good sense to pay our aviators a little more to stay in now rather than spending one million dollars to train each replacement later.

Nuclear Officer Shortages. Our other most serious officer manning problem is the continued shortage of experienced nuclear qualified officers (lieutenant commander through captain). These officers are required to serve as "at sea" department heads, executive officers, and commanding officers; and for key shore billets directly supporting fleet readiness and nuclear propulsion plant safety. We anticipate that enhancements to Nuclear Officer Incentive Pay (NOIP) contained in the FY-86 Defense Authorization Act will reduce this shortage from 21 percent in FY-86 to 11 percent by FY-90.

In the interim, current shortages require the nuclear trained officer community to assign some exceptional lieutenants to engineering billets normally filled by lieutenant commanders. Thus, a continuation of the authority to temporarily (SPOT) promote these officers to lieutenant commander is necessary to ensure that these critical billets are adequately filled.

Retention and Compensation. There are three major compensation issues which affect retention throughout the Navy - continued caps on military pay, recent changes in the retirement account, and the proposed change to the tax-exempt status of housing allowances.

Due to the pay caps over the last four years, military pay now lags private sector pay levels by 8.3 percent, as measured by the Employment Cost Index. If we are to avoid widening that gap, and if we are to avoid the potential retention and recruiting degradation that would probably result from this pay comparability gap, the FY-87 pay raise must at least match the projected private sector wage growth of 4.0 percent. Another pay cap in FY-87 will only increase the disparity between military and private sector wage levels.

Funding for military retirement costs was reduced by 16 percent in FY-86 in anticipation of enactment of legislation to change the Military Retirement System. Our analyses predict that this structural change in the retirement system, which is a keystone in our total compensation package, will result in a reduced quality and number of people who remain in the military for a career. We, therefore, strongly support enacting a mechanism which would avoid the career force losses caused by reductions in retainer/ retired pay by taking advantage of the fact that people will usually accept a given amount of income today in lieu of a larger stream of benefits in the distant future. This concept could be tested by allowing "grandfathered" personnel to elect either the new or old retirement system. However, regardless of the specific solution, we must counterbalance the career force impact of the military retirement reduction or risk a military manpower crisis which could seriously affect the readiness posture of our armed forces.

The third issue is an existing IRS Ruling which will effectively tax the presently non-taxable housing allowances of military personnel who live in homes they own, commencing with the 1987 tax year. Such an action would be contrary to the spirit and letter of congressional military compensation laws dating from 1965, which incorporate income tax advantages as a part of military pay levels. The result of adopting the IRS tax policy will be that about 300,000 military homeowners will suffer a four to seven percent pay cut due to the elimination of mortgage interest deductions. While permanent relief has been included in the House Tax Reform Bill, many hurdles must be crossed on the path to enactment. The specter of this ruling has hung over service families for over three years. We urge the Congress to come to grips with the issue this year. Non-taxable allowances are an integral part of the total compensation package and cannot be altered without consideration of the impact on total compensation and retention.

Women In The Navy. During the past five years, women in the Navy have increased in both numbers and job diversity. The numerical increases are illustrated below:

FIGURE 16
WOMEN END STRENGTH

	FY-80	FY-85	FY-86*
Enlisted End Strength	29,806	45,328	45,800
% of all enlisted	6.5%	8.9%	9.0%
Officer End Strength	4,877	6,958	7,075
% of all officers	7.7%	9.7%	9.8%

* End FY-86 Projection

The Women in Ships program has continued to grow with a projected total of about 200 officers on 34 ships and about 5,200 enlisted women on 36 ships by the end of this fiscal year. This reflects an increase over FY-80 of approximately 4,500 women serving in permanent shipboard assignments.

As the Navy's cadre of enlisted women in aviation specialties increases, more women are being assigned to sea duty billets in squadrons where women may be permanently assigned. For example, all operational VP squadrons now have women assigned in ground support and maintenance billets.

Navy's commitment to increased utilization of women plays an important part in our ability to man the 600 ship Navy but has created a problem unique to Navy which constrains our ability to expand the opportunities for women to participate in the seagoing Navy. The increasing number of women in the Navy has led, not unexpectedly, to a marked increase in the number of marriages between service members. Navy couples in paygrades below E-7 are statutorily denied a housing allowance to establish or maintain a private, off-ship residence solely by virtue of their assignment to any ship, regardless of mission, operational tempo or location. It is ludicrous to expect husband and wife to live on their respective ships in their homeport. We need your help to modify the law governing quarters allowances to give Navy couples on sea duty the same rights to a private residence available to other military couples in DOD.

Equal Opportunity. We are committed to achieving an Equal Opportunity (EO) climate that provides fair and equal treatment for all people in the Total Force regardless of race, color, creed, sex, or national origin. This is essential in attaining and maintaining a high state of morale, discipline and military effectiveness. We have taken positive steps through education and training to promote understanding of the various cultural and ethnic differences within the Navy to aid in achieving this climate. Recently, I have implemented Command Managed Equal Opportunity (CMEO). This program emphasizes the Commanding Officer's responsibility for creating and maintaining a positive EO climate. It underscores the chain of command's responsibility for identifying and resolving EO issues. It enables commands to monitor EO issues and address them internally. It also assures that EO is a reality at each command. Total commitment, starting at the command level, is the key to success.

Attrition/Desertion. Improved recruiting and retention rates have enabled us to improve the quality of the force by separating personnel whose professional or personal performance does not contribute to command readiness. Nonetheless, first term attrition numbers have declined over the past four years, decreasing in FY-85 to 11.3 percent from the 11.9 percent level of FY-84. Project Upgrade '85, a program to discharge marginal performers, discharged 45 percent fewer personnel than Project Upgrade '84 (441 vs 811). The steady decline in the number of substandard performers provides another indication of the improved overall quality of the Force.

The desertion rate continued to decline in FY-85 for the eighth consecutive year. The FY-85 rate of 10.1 per 1000 is the lowest the Navy has experienced since 1972.

The unauthorized absence (UA) rate also continued to improve with FY-85 being the sixth consecutive year in which the rate declined. The FY-85 UA rate of 32.7 per 1000 was the lowest in the Navy since 1973.

These positive trends reflect the high quality of personnel in today's Navy. Looking ahead to FY-87, attrition/desertion/ unauthorized absence rates may rise slightly as the quality of accessions declines due to the improving economy and increased competition from industry and educational institutions for the high quality youths in the smaller recruitable population.

Drug and Alcohol Abuse. A policy of "zero tolerance" coupled with state-of-the-art procedures for detection and deterrence have proven to be highly effective weapons in winning the "War on Drugs." Our efforts to improve the quality of life of our sailors by providing a higher quality and greater variety of programs have contributed to personnel readiness through improved morale and fitness. Additionally, our recreation programs provide wholesome activities as alternatives to drug and alcohol abuse, and they promote physical fitness. Our aggressive, tough, but fair approach to alcohol and drug abuse has shown concrete results. Since 1980, when 48 percent of our E1-E5 population were found to be using marijuana, there has been a steady and significant decline in drug usage. Today, we use the most sophisticated testing system available and less than 3.0 percent of urinalysis tests being conducted Navy-wide are confirmed positive. Urinalysis testing of civilian employees performing critical functions is also planned, and new initiatives to detect other drugs (e.g. LSD) are being aggressively pursued. As we eliminate the drug culture from the Navy, our standards for retention are getting higher. Rehabilitation for drug dependency is now being offered only to those petty officers who exhibit exceptional potential and desire further service. As a result of this new policy, two treatment facilities in the San Diego area have been combined into one. We are also consolidating Counseling and Assistance Centers (CAACs) and Navy Alcohol and Drug Safety Action Program (NADSAP) facilities where feasible. I am gratified that, as our success continues, we have been able to shift the Navy's focus and a half million dollars from treatment programs to prevention and education.

The readiness statistics indicate our string of successes in personnel matters. The accession and retention of adequate numbers of high quality people has produced a winning atmosphere aboard our ships and squadrons and makes me confident when I assert that these ships truly are "war ready". Personnel improvements are universally recognized as the most dramatic accomplishment of the last five years. We must now sustain these achievements.

Corrections System Management. A new three level brig concept has been approved for short-, mediumand long-term prisoners. Waterfront brigs will be co-located with correctional custody operations and provide intensive return-to-duty programs for short term (less than 30 days) prisoners. Medium-term (30 days to one year) prisoners will be incarcerated at consolidated, centrally located brig sites. All prisoners with sentences in excess of one year will be transferred to Ft. Leavenworth or to the Federal Prisons system. This reorganization will reduce construction costs by 35 percent ($48M) over previous design estimates, will reduce brig staffing requirements by 30 percent ($12M savings), and, commencing in FY-91, will restore a minimum of 1,140 sailors to honorable service annually.

Permanent Change of Station (PCS) Program. The Navy's unique sea duty environment also affects our Permanent Change of Station (PCS) requirements. There are few things more demanding on an individual and his family than the rigors of duty at sea. Because ships' homeports are widely dispersed, it is not possible to have the number and diversity of shore duty billets in each homeport which would permit most sailors to rotate between sea and shore duty at no cost. Despite this limitation, we estimate that 45,190 no-cost moves and 4,500 voluntary tour extensions will be executed in FY-86.

The Navy PCS Program will require $588,637,000 for FY-87, a net increase of $200,000 from the funding level currently planned for FY-86. The cost variances include inflation factors and industrial-funded service decreases/increases as provided by OSD. Page I-74 of the MPN budget request provides details on cost increases and deceases. Figure 17 shows planned moves and average costs by travel category. While average costs per move increase modestly in FY-87, the composite average costs actually decrease as a result of increasing the number of less expensive accession and separation moves, and making fewer of the more costly operational and rotational moves. Unless the fundamental force structure is changed or we omit necessary training, the Navy's options to change minimum move requirements are limited to CONUS sea/shore operational moves and overseas rotational moves. For FY-87, these moves represent only 27% of the total Navy move program. Very limited opportunities exist, however, to restrict these moves without upsetting efforts to maintain skill and grade balance and increase the career force. Previous congressional budget constraints in FY-83 and FY-84 created a backlog of deferred transfers and caused more voluntary extensions than were advisable. The skill and grade imbalances created at that time were rectified somewhat in FY-85, but many serious imbalances remain.

FIGURE 17

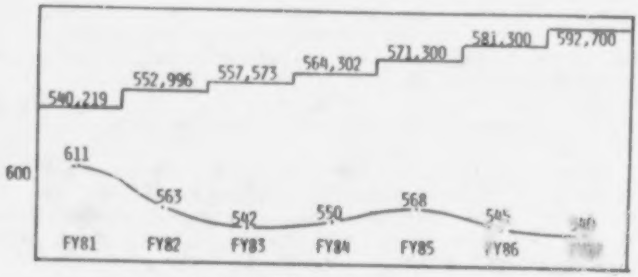
PERMANENT CHANGE OF STATION MOVES AND AVERAGE COSTS BY TRAVEL CATEGORY

	FY-86 ESTIMATE		FY-87 ESTIMATE		DIFFERENCE 87 over 86	
CATEGORY	MOVES	AVERAGE COSTS	MOVES	AVERAGE COSTS	MOVES	AVERAGE COSTS
ACCESSIONS	102,821	$736.37	105,163	$ 741.30	+ 2342	$+ 4.93
SEPARATIONS	83,825	817.41	85,708	827.15	+ 1883	+ 9.74
TRAINING	36,346	1916.94	34,693	1975.99	- 1653	+ 59.05
OPERATIONAL	50,375	2858.20	49,038	2927.65	- 1337	+ 69.45
ROTATIONAL	38,513	5436.40	36,409	5441.59	- 2104	+ 5.19
UNIT MOVES	7,051	3471.42	8,827	3720.97	+ 1776	+249.55
TOTAL MOVES	318,931		319,838		+907	
COMPOSITE AVERAGE COSTS		1855.38		1850.74		- 4.64

Based on population, the FY-87 PCS program complies with congressional direction to reduce the number of PCS moves. The FY-87 PCS Budget request is the smallest requested since FY-75, the earliest year for which we have calculated statistics.

FIGURE 18

ALL PCS MOVES PER 1000 END-STRENGTH



(MOVES / 1000 END-STRENGTH)

- EVERY TYPE OF MOVE THAT CAN BE ASSOCIATED WITH ASSIGNMENT POLICY IS SUBSTANTIALLY REDUCED FROM 1985/86

The efficacy of a management approach (and congressional pressure) toward a singular goal of minimizing PCS costs must be balanced in the overall context of the outcomes achieved through the reassignment of Navy people. Our ability to replace planned and unexpected losses within individual units and major components of the force structure is key to sustaining fleet readiness. We need your understanding of the uniqueness of the Navy's PCS situation, and your support for the funding to execute a balanced PCS program which will correct manning imbalances, enable an equitable sea-shore rotation policy, support established overseas tour lengths, and allow requisite training at the appropriate career gates.

TAKING CARE OF THE PEOPLE -
THE QUALITY OF NAVY LIFE

The Quality of Life program focuses on improving operational readiness by assisting our members in meeting their personal needs and family responsibilities. The welfare of our personnel and their families is critical to our success in achieving and maintaining a fully-manned force. The geographic instability and family separation which are part of a naval career make availability of sufficient housing, recreational facilities, commissaries, hospitals, and family support services crucial to maintaining the standard of living and morale of our men and women. Sailors are required to spend a great deal of their time at sea and are frequently unable to be with their families in time of need. Each day the Navy has the equivalent of 86,000 single parents while their spouses are at sea. In order to offset the hardships indigenous to Navy life, it is necessary that we make every effort to achieve and maintain a quality of life equivalent to that of the society we expect our personnel to protect. With your help, we have made significant progress over the past year. Let me recap our accomplishments along these lines and preview our initiatives for FY-87.

Family Support Programs. One objective has been to develop a strong family support network. This program is divided into two major elements - headquarters and field operations. At the headquarters level, policy and guidance are developed for program areas such as: Family Service Centers, Family Advocacy, Overseas Duty Support, Spouse Employment, Ombudsmen Program, Dependents Education and Navy-wide Family Awareness. At the field level, assistance to service members and their families is delivered through a planned network of Family Service Centers (FSCs). The first FSCs were funded in FY-81. Today, we have 63 in operation, and by the end of FY-87, all seventy centers will be on-line. Navy personnel and their families do avail themselves of these services. For example, in a recent three month period, we assisted approximately 250,000 people.

Child care centers currently receive over 15,000 of our sailors' children daily, yet, unfortunately, the demand for services cannot be met. As a result, we have undertaken Family Home Day Care initiatives in government quarters to begin meeting excess demand. Another dimension of our concern for the welfare of our service families is reflected in the expansion of Navy's Youth Fitness Program.

Another issue that will continue to get increased attention is employment assistance for spouses of both our military and civilian members. Placement opportunities in the new locations when members transfer will become an even more important consideration in retention decisions by our military members and relocation decisions by our civilian members. Although Navy efforts on behalf of all spouses preceded passage of the Family Assistance Act in 1985, we very much appreciate the additional emphasis that implementation of the Act will give to this concern. On the other hand, we must be sensitive to the impact that the preferential treatment of spouses can be expected to have on equal employment objectives and promotional opportunities for our current civilian work force.

Housing. Our housing objective is to ensure that military members with dependents have suitable housing. We will build 845 units of Military Family Housing in FY-86, a 51 percent increase over FY-85. Our long range construction plan will reduce our current buildable deficit of 11,600 units to 4,776 units by FY-91. To care for our unmarried members, we have averaged nearly 7,000 spaces of new bachelor housing construction over the last three years. In both programs we are dedicated to providing adequate housing to members and their dependents, with special emphasis on our more junior personnel and those assigned to extremely high cost of living areas.

Reimbursement of Personal Expenses. I am pleased to report that the congressional initiatives to ease the financial burdens on sailors' families during their numerous moves, many to the highest cost areas of our country, have been enthusiastically received in the fleet. These moves usually cost Navy families significantly more than their moving allowances permit. This out-of-pocket cost is a major compensation disincentive when families consider reenlistment. The expanded allowances have reduced but not eliminated the shortfall. Although not fully-funded in FY-86, the authority to pay expanded allowances for temporary lodging, increased travel and transportation allowances and the authority for advance payment of housing related allowances are responsible for the ground gained in this area. Even with these improvements, there are reimbursements for necessary costs that are not yet adequate. Household goods weight allowances for uniformed personnel are not adequate, nor are they equitable, when compared to those of the Federal civilian employee. Last year Congress was provided with a table of proposed household goods weight allowances for uniformed personnel. I urge that funds be provided to enable full implementation of these higher weight allowances.

In the area of temporary duty travel, the ability to adequately reimburse our uniformed personnel for lodging and subsistence expenses does not exist. The law prescribes for uniformed personnel a per diem ceiling of $50 per day and an actual expense reimbursement ceiling of $75 per day within the continental United States. These ceilings are simply too low. The result is that part of the cost of travel necessary to conduct Government business is paid out-of-pocket by the traveler who, at least in the case of the uniformed service member, has no realistic option except to carry out orders and bear the expense. Removing the statutory ceilings for travel within the continental United States and adopting a lodgings-plus concept would enable equitable reimbursement for temporary lodging and subsistence costs. This improvement would parallel the recently passed legislation for Government civilians.

Miscellaneous Compensation Low/No Cost Initiatives. This year we are requesting several minimal or no cost compensation/ reimbursement initiatives which for the most part shore-up current programs to provide more complete or updated coverage. The low cost items include: providing subsistence for dependents in an outpatient status at overseas hospitals away from their homebase, increasing household goods claim limits to more realistic levels, providing local travel per diem, authorizing student dependent travel from Alaska/Hawaii, and providing transportation for the next of kin for members seriously ill or injured. The no cost initiatives (in some cases cost-saving initiatives) are management tools to provide better efficiency and improve quality of life for our members. They include: early return of dependents to CONUS under unsafe circumstances, permitting carry-over of negative leave balances to follow-on reenlistment tours, and payment of temporary storage costs for excess weight household goods, which will later be reimbursed by the service member. Your support of these initiatives is strongly requested to improve our members' quality of life at very minimal cost.

Dependent Dental Care. The Dental Insurance Program, forthcoming in FY-87 for active duty dependents, is a signal improvement in the total health benefits program for Navy families and is warmly anticipated in the fleet. Such a contributory enrollment type plan sends a positive message to our sailors that we care about their families' total well-being and are prepared to assist in defraying the cost of dental care that they clearly require and deserve.

Credit Cards in Navy Exchanges. In October 1985, we received congressional approval to use nationally recognized credit cards in exchanges. This also is an important element in reassuring our Navy families that their living conditions are comparable to their civilian counterparts.

Voluntary Education. The Navy's Voluntary Education programs provide opportunities for sailors and their families, with special emphasis on the overseas deployed personnel, to share opportunities for education that are available to all eligible citizens. Active duty personnel receive education planning guidance, testing services and are offered courses ranging from high school completion through doctoral studies. Analysis of FY-85 enlisted retention survey results reveals that the desire for more formal education ranks high (8 of 30) among incentives for reenlistment.

The services, benefits and opportunities given our Navy people through Quality of Life programs contribute directly to improved readiness, on-the-job performance, and retention. In addition to the family programs which I have described, we have undertaken a variety of efforts to improve the individual sailor's quality of life. Health care professionals regularly visit all operational units to provide command programs in fitness, stress management, nutrition, smoking cessation and weight control. Shipboard exercise rooms are proliferating as command fitness coordinators implement Navy's Fitness for Life initiative. Also, increased emphasis is being given to general recreation programs to improve morale of shipboard sailors. Both the fitness room initiative and expansion of recreation opportunities are positive alternatives to drug and alcohol abuse. We cannot afford to lessen our efforts in improving the Quality of Life of our active duty forces and their dependents. Only by making an on-going commitment can we be assured of attracting and keeping the quantity and quality of people needed to achieve our maritime strategy objectives.

CONCLUSION

You have funded the ships and aircraft for a 600-ship Navy by 1989. We cannot afford to default on the hardware purchases already made. The final payment must be made for the personnel, who are the real force multiplier in the readiness equation, if we are going to realize full return on the nation's investment. The Navy's manning needs are unique because of necessary seashore rotation demands; on an aggregate basis in the force structure, every two billets added at sea require one billet added ashore to ensure equitable rotation and prevent unduly long sea tours. To maintain adequate manning of ships and aircraft squadrons in a growing fleet despite end strength limitations, we have inadequately manned fleet support and shore activities. This will affect readiness in the long term. It has already led to longer sea tours for critical, sea-intensive ratings. We continue to see ways to cope with inadequate end strength, such as civilianization of some shore billets for ratings which are not sea-intensive, but we have cut shore manning as much as it can be cut. If the trend established by FY-82 through FY-86 end strength constraints continues, the Navy will be some 18,000 people below manning requirements in 1991.

People are the most critical and important asset we have in the Navy. The quality of men and women in the service today is among the best and brightest this country has to offer. That we have been able to attract them and keep them on board, in spite of unique demands we place upon them, are the factors most responsible for the exceptional turnaround in readiness we have experienced over the past five years. The compensation and personnel legislation enacted by this and the previous two Congresses have given us the tools to achieve this impressive record: a record which has been assessed as a success by every conceivable measure one could apply, including return on dollars invested. That record, however, must be sustained.

I am cautiously optimistic we can sustain the quality of the current force and complete the contract we have to provide a properly manned 600 ship, 15 battle group Navy. It will be a Navy that is lean, combat ready, affordable and can meet the threat. To accomplish this we do require a measured increase in manpower to support the programmed structural growth of the fleet. Inextricably linked to this are adequate levels of compensation and a reasonable quality of life for our sailors and their families.

APPENDIX A

The Military Personnel, Navy (MPN) Appropriation Request

The FY-87 MPN request is for an appropriation of $17,459,500,000 in new obligational authority. This is a net increase of about $470 million from the current FY-86 funding requirement. The major factor is the workyear increase of 11,431 for $239.6 million. Inflation, equating to $12.3 million of the increase, has been included for enlisted subsistence, permanent change of station travel and temporary lodging allowance. Details of other cost increases and decreases are provided on pages I-15 and I-16 of the MPN budget request. Figure A reflects funds requested for all six budget activities, as well as the percent of each to the total program.

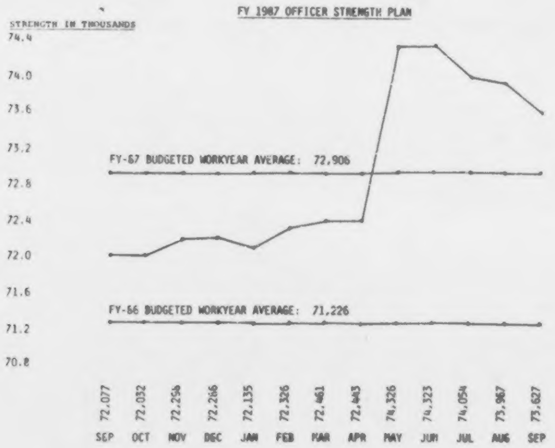
FIGURE A

MILITARY PERSONNEL, NAVY DOLLARS ($000) BY BUDGET ACTIVITY

BUDGET ACTIVITY	FY 1986	%	FY 1987	%
PAY AND ALLOWANCES - OFFICERS	3,975,271	23.4	4,053,512	23.2
PAY AND ALLOWANCES - ENLISTED	11,612,493	68.3	11,981,135	68.6
PAY AND ALLOWANCES - MIDSHIPMEN	34,372	.2	34,076	.2
SUBSISTENCE OF ENLISTED PERSONNEL	740,394	4.4	764,891	4.4
PERMANENT CHANGE OF STATION TRAVEL	588,437	3.5	588,637	3.4
OTHER MILITARY PERSONNEL COSTS	38,442	.2	37,249	.2
TOTAL DIRECT PROGRAM	16,989,409	100.0	17,459,500	100.0
REIMBURSABLES	121,800		126,200	
TOTAL FINANCIAL PROGRAM	17,111,209		17,585,700	

Pay and Allowances of Officers. $4,053,512,000 is requested to support planned officer strength in FY-87. This represents a net increase of about $78 million from the FY-86 level and is attributed primarily to Basic Pay, Retired Pay Accrual, Basic Allowance for Quarters, Variable Housing Allowance, Basic Allowance for Subsistence and FICA. The funds required in this budget activity are based primarily on the monthly strength plan and resultant workyears indicated in Figure B.

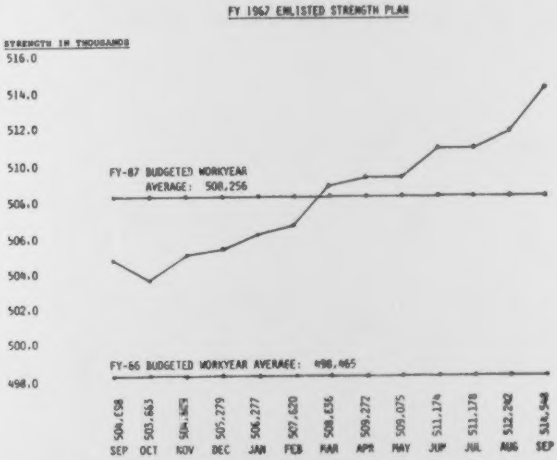
FIGURE B



Pay and Allowances of Enlisted Personnel. Planned enlisted strength will require $11,981,135,000 in FY-87. This represents a net increase of about $369 million over the FY-86 level. Largest increases in FY-87 are for Basic Pay, Retired Pay Accrual, Basic Allowance for Quarters, Variable Housing Allowance, Clothing and FICA which are the strength-related items affected by the workyear increase. In addition, Selective Reenlistment Bonus includes a substantial increase due primarily to the change from 50% to 75% lump sum payments.

The funds required in this budget activity are primarily based on the monthly strength plan and resultant workyears indicated in Figure C. Budgeted workyears are 1,367 below a "straight line" computation between the end strength of FY-86 and that of the budget year.

FIGURE C



Subsistence of Enlisted Personnel. The amount required for Subsistence of Enlisted Personnel in FY-87 is $764,891,000. The estimated cost to feed an enlisted member in an Enlisted Dining Facility (EDF) has been developed on current costs plus the inflation factor of 4.1 percent allowed by OSD. In addition to the cost escalator in FY-87, the program requirements increase as a result of the approximate 9,800 workyear increase between the two fiscal years.

Mr. **Addabbo**. Thank you.

General **Cheatham**. I think at this time I should summarize my statement, sir.

Mr. **Addabbo**. We would appreciate it.

SUMMARY STATEMENT OF GENERAL CHEATHAM

General **Cheatham**. I share General Chavarrie's concerns about the manpower problems that exist. But, because of your support in the past, the Marine Corps is in good condition today. We are probably as well off as we have been in years with quality people and good equipment.

We think we can continue with your support, sir.

I thank you.

[The statement of General Cheatham follows:]

Statement of

Deputy Chief of Staff for Manpower

Mr. Chairman, distinguished members of the subcommittee:

It is a privilege for me to appear before you to present the fiscal year 1987 request for Marine Corps manpower. We are requesting an active duty military end strength increase of 1,500, Selected Marine Corps Reserve increase of 1,381, and a level civilian program. Increases are needed to support documented requirements.

My statement will focus on the state of our force today as it relates to both peacetime and wartime capabilities, the concepts and programs that channel this force, our fiscal year 1985 successes, expectations for this fiscal year, and support areas which require attention. The Marine Corps prides itself in being able to plan for and provide the right force to meet our unique missions and responsibilities. With your help we will continue to do so.

TOTAL FORCE

Policy

The Marine Corps is committed to a total force policy, using factors of readiness, appropriateness, and cost to determine which component should be assigned specific, directed, or implied missions. Our Reserve component participates in the decisionmaking process, war and peacetime planning, and day-to-day general activities. Our civilian personnel, although relatively small in number, are an integral part of the total force.

Active Force Requirement

The Marine Corps has been following a long-range, conservative, and deliberate pattern of growth in structure and manning since 1981 to support essential modernization. Manpower structure growth is designed to support new equipment and systems in the procurement pipeline. Planned manning growth coincides with increasing requirements. Modernization is essential for the Marine Corps to remain the Nation's Force-in-Readiness.

The structure increase for fiscal year 1987 supports the addition of a Target Acquisition Battery, continued modernization of field artillery and Combat Service Support units, transition to modern aircraft, increased Marine Security Guard support, and activation of a ship's detachment on the USS Wisconsin.

Active Duty Manning

The Corps has been successful in finding and retaining those fine young Americans needed to fill our ranks. In fact, in fiscal year 1985 we remained within a quarter of one percent of our manpower plan throughout the year while increasing quality.

Building the right force is a complex, long-term process. It takes years to replace a career Marine. We must enlist and train four or five recruits in a particular skill, wait four years to see which one has the talent and desire to stay, and then continue to train and mature that Marine for an additional four years or more to develop one experienced staff noncommissioned officer. Accessions classification, training, and assignment support plans are needed two to eight years ahead of projected requirements. Today, most officers are contracted three to four years before they enter active duty, and most young people enlist for four to six years. These factors mandate long-range planning.

For the last ten years, in addition to coping with long lead times required to manage the force, we have been trying to rebuild the career force lost in the mid 1970's by a lack of sensitivity to the private sector's attraction, low pay, and lack of family support. Restoration of our defenses to a level commensurate with our global responsibilities has been an arduous task for which Congress and Defense can jointly share credit. But that task is not yet finished. We must take great care not to unravel what has been so carefully woven, particularly in the area of manpower, which requires years to rebuild.

For the last few years, structure has continued to grow as scheduled although manning has not. The result has been reduced manning of requirements in the Marine Corps during difficult modernization transition years. Despite this, we have retained a high "tooth to tail" ratio with two-thirds of our manpower resources assigned to the fighting forces, the Fleet Marine Force (FMF). We maintain these forces while still meeting our responsibilities to provide the Department of State with Marine Security Guards, and the Navy with ship's detachments, equitable formal school staffs, and Marine Barracks guards.

While we have always tried to man 90 percent of our FMF requirement, the authorized fiscal year 1986 end strength of 198,800 allows manning at 88.0 percent, with a projected increase to only 88.8 percent in fiscal year 1987 despite our request to increase end strength to 200,300. Only our ability to recruit and retain quality Marines has sustained readiness under these constraints. But there is a limit to "doing more with less." Unless the trend is reversed, readiness can be expected to drop.

Training plans and school arrangements require constant change to meet "most critical needs" whenever planned manning is reduced. A relatively small shift in phasing of accessions can easily result in an inability to fill 800 to 1,000 school seats.

Our primary manpower problems last year centered around adjusting to earlier than planned attainment of quality and force stability. As a result, we had an increased number of Marines with dependents, reduced disciplinary problems, and increased retention. While a positive impact for field commanders, improved quality means increased costs in an already fiscally-constrained budget.

The unprecedented percentage of enlisted Marines with dependents of 38.5 percent reached in fiscal year 1983 continued to rise to 42.5 percent last year, documenting for the first time in our history more Marine dependents than Marines on active duty. This rate is projected to begin leveling off at 44.1 percent this year.

Concurrently, disciplinary problems such as unauthorized absence and desertion continued to decrease, with rates last year less than half those of fiscal year 1983. The positive influence of better retention of quality Marines has increased stability in the force. As we follow our modernization plan, we have reached and are maintaining the highest level of readiness in the last decade.

Officers

We met all officer accession goals in fiscal year 1985 by admitting 1,677 commissioned and warrant officers. At the same time, we continued to better define requirements and improve management of the officer community.

Comprehensive flag and general officer legislation remains an issue of concern. We look forward to hearings on this subject and are eager for approval of legislation that would satisfy both congressional concerns and service needs.

Enlisted

As with the officer plan, we fulfilled all enlisted goals in fiscal year 1985. This success was achieved while attaining a record high level of quality, as measured by the numbers of high school graduates and upper AFQT group recruits. The increase to 96.8 percent of non-prior service recruits accessed with high school diplomas helped boost the education level of the overall enlisted community to an unprecedented 97.7 percent high school graduates. Simultaneously, we focused recruiting efforts on those who score in the upper three categories of the qualification tests, joining only 3.7 percent from category IV this last year. This infusion of better educated, more intelligent Marines, along with the decrease in disciplinary problems directly translates into improved readiness.

Moreover, force management policies have been established to make the best possible use of the quality force maintained today. A major effort has been made to reduce summer personnel turbulence by a combination of longer initial enlistments and level load recruit accessions. In fiscal year 1981, only 71 percent of our recruits entered the Marine Corps for 4-6 years. Last year, 82.5 percent entered for four and 14.7 percent for five or six years. Longer first term enlistments add significant stability to the force.

This stability is further enhanced by the level load policy begun in 1983 and formalized in 1984 for recruiting enlisted personnel. The full impact of this policy will not be felt until 1987 and 1988, when Marines who entered under this policy begin to leave active service in a more level flow. We can, however, document improvements in training and assignments since the program began.

Another significant force management tool was recently adopted. Beginning this year, we will select staff noncommissioned officers for promotion based on validated military occupational specialty (MOS) requirements instead of general requirements across an entire occupational field. This important policy change will allow us to better balance our career force and to meet critical skill needs in the top four enlisted grades. Our goal is to provide the proper mix of experience and leadership in every combat essential MOS.

As we shift manning to meet changing requirements each year, we sustain manpower shortages in documented critically short MOS's of between 10,000 and 11,000 Marines. By targeting the Enlistment Bonus (EB) program to attract recruits into the right skills and the Selective Reenlistment Bonus (SRB) program to retain quality Marines in the short MOS's, we have been able to reduce the shortage by half by the end of each year. Continued congressional support of these key bonus programs is essential to our efforts to attract and retain the "right" Marine for the "right" job; therefore, reducing waste of manpower and training dollars.

Training

As equipment and duties become more complex, more Marines need to be school trained. Today, over 96 percent of all Marines attend a formal entry level skill school following recruit training. These schools range in length from 2 to 106 weeks. At present, only those Marines assigned to four relatively small MOS's are trained exclusively on-the-job. While formal school training is costly in time and dollars, it allows us to provide the greatest challenge to and reap the highest benefit from the highly motivated, young people entering the Marine Corps today.

Our total training commitment is extensive when entry level needs are combined with lateral move retraining and career development requirements. At present, 60 percent of this training is conducted outside the Marine Corps, which necessitates making school seat reservations with our sister services up to three years in advance. Level recruit accessions and continued stability in the force greatly improve our ability to plan, buy, and fill these training seats.

Civilians

Civilian personnel are employed in a wide variety of professional, technical, and administrative functions throughout the Marine Corps. Their presence permits the more effective use of limited military resources; increases manning of the Fleet Marine Forces (FMF); enhances local continuity; and provides specialized expertise not available within the military community.

To increase efficiency and avoid duplication, military and civilian manpower resources are applied against a single force requirement. The fiscal year 1987 civilian request of 22,124 is necessary and conservative.

Women Marines and Minorities

The Marine Corps has expanded the role of women to the maximum extent possible, within the limits imposed by law, and has tripled the number of women on active duty since 1975. Today, approximately 650 women officers and 9,000 enlisted women serve on active duty.

A 1984 classification, assignment, and deployment policies review for enlisted women Marines resulted in decisions which ensure that all Marines are afforded equitable assignment and career progression. Based on the results, enlisted women continue to serve in 35 of 39 occupational fields, and the authorized enlisted women strength will increase to approximately 10,500 by 1989. A similar review is underway for the women officer community.

A study on minority officer selection, and a related ongoing study on their retention, provide the cornerstone for efforts to increase the minority officer population. Our efforts to provide a fair, balanced distribution of minorities within occupational fields continue to show steady progress. Ensuring fairness and equality of opportunity to all Marines is an inherent function of leadership.

Marine Corps Reserves

The mission of the Marine Corps Reserves is to maintain highly trained units and qualified individuals available for active duty in time of war or national emergency. Primary sources of manpower on mobilization are the Ready Reserves, consisting of the Selected Marine Corps Reserve (SMCR) and Individual Ready Reserve (IRR). Remaining needs will be met primarily through recall of certain classes of retirees.

The Reserve component is the underlying strength of our ability to expand for combat. Charged with providing the capability to rapidly fill out the force during wartime or national emergency, the Marine Corps Reserve must stand prepared to provide as much as 33 percent of the total Marine Corps wartime manpower requirement from SMCR and IRR assets. Positive steps continue to better organize, train, manage, and retain Marine reservists.

Both the SMCR and IRR have experienced personnel growth during fiscal year 1985, with continuous and steady growth projected for the future. Due in large part to outstanding recruiting efforts, the SMCR strength grew by 937 Marines last year to a total strength of 41,586, and plans are in effect for additional growth of 1,433 during fiscal year 1986. Similarly, the IRR which currently consists of 3,567 officers and 44,288 enlisted personnel, is scheduled to grow to 52,000 in fiscal year 1986, and will almost double in size over the next five years as a result of the increase in length of military service obligation.

In addition to meeting or exceeding accession goals in the SMCR, we continue to improve retention, although it remains an area of concern. As with the active force, we need to attract and retain quality as well as quantity.

We have made significant improvements this year in matching the right Marine with the right job, decreasing skill mismatches while improving school training efforts. These efforts will continue.

Readiness and Mobilization

Peacetime readiness of both active and reserve units is assessed through the monthly Unit Status and Identity Report (UNITREP) and other systems. As mentioned earlier, readiness today has stabilized at a level higher than at any time since the establishment of the all volunteer force over a decade ago.

During a national emergency, we plan to immediately augment and reinforce the three active Marine Amphibious Forces (MAF's) with SMCR units. Our active and Reserve units frequently participate in training exercises to ensure we can accomplish this task in a timely and effective fashion. Our primary sources of pre-trained manpower for individual augmentation of the active MAF's are retirees and former Marines still fulfilling their military service obligation as members of the IRR.

We test the adequacy and executability of current and future mobilization plans through participation in major Joint Chiefs of Staff mobilization exercises. These tests have documented our flexibility and responsiveness while also identifying shortfalls in our system. A continuing problem is our inability to rapidly locate pre-trained personnel, since most retiree files list bank addresses to support check-to-bank needs, and former Marines in the IRR population frequently move without leaving a forwarding address. We need access to other agency address data bases to overcome this major deficiency.

We require a strong retired population. The task of continuing essential base and station functions which support transient fighting forces and their families in the event of mobilization will be assigned to this group of trained and proven Marines.

Wartime manpower sustainability after mobilization remains a serious concern. We must have sufficient in-theater medical support, as well as reinstitution of conscription immediately upon mobilization, if we are to operationally sustain the force.

QUALITY OF LIFE

The Marine Corps uses the term quality of life to define everything that contributes to a quality work and living environment for our Marines and their families. These programs enhance morale, help retain quality personnel, and lead to increased personnel readiness.

Compensation

We must continue to have a strong interwoven compensation system which provides pay comparability, direct pay-raise linkage to the private sector, and fairly supports our retired population as an integral part of the military community. Additionally, we must continue support for benefits and entitlements which help our Marines and families meet the unique challenges of military service, such as medical and dental support, equitable quarters and housing allowances, travel and transportation support, and exchanges and commissaries. Family support has received increased attention in the last two years as the number of dependents has grown. While Marines accept personal sacrifice, they deserve a reasonable, easily understood compensation and benefit system which provides assurance that their families will be provided for.

Finally, we do not support changes to the retired pay system. We believe change would cause degradation in the quality of the force and a resultant decrease in the readiness of the Marine

Corps.

Permanent Change Of Station

The Permanent Change of Station (PCS) program is a vital and integral part of military force management. The general category of PCS and the subordinate parts must be considered in relation to the overall manpower plan, as each of the six types of moves serves a different although interrelated purpose.

The Marine Corps has made great strides in planning and managing PCS requirements. We have implemented the Unit Deployment Program (UDP), converted many overseas unaccompanied to accompanied billets, lengthened enlistment contracts, and reduced personnel turbulence. Discounting rising training aspects, we have actually cut the number of PCS moves in half over the last ten years during a time of growing operational requirements. Both the UDP and billet conversion programs have resulted in substantial dollar savings and improved readiness, and they are being expanded as rapidly as units can be prepared and the Government of Japan can provide adequate overseas family support.

Today, over half of our annual PCS program supports Marines entering or leaving the service. The remainder sustains our worldwide commitments as the Nation's Force-in-Readiness. A quarter of our force concurrently serves outside the continental United States in forward deployed units of the FMF or in a wide range of other duties including embassy, ships' detachment, and barracks security. Almost 10 percent of our force is serving in unaccompanied overseas tours.

Marines understand and accept the need to periodically undergo family separations in order to support our very heavy operational commitments -- it's all part of being a Marine. But in peacetime, a two-year enforced family separation is not acceptable. We cannot ask Marines, more of whom are married today than ever before, to involuntarily endure two-year family separations. Reasonable family separation policy in connection with unaccompanied overseas tours must be maintained. Tours must be long enough to meet operational needs, but not so long as to create unacceptable hardships. Cost alone must not be the primary factor in establishing tour lengths for Marines serving overseas without their families.

We need flexibility to handle this critical program at minimum cost while maintaining the ability to function operationally. Annually, the Marine Corps presents the most current and valid estimate of PCS requirements. There is no excess in this important program, either in moves or dollars to support other programs or new initiatives.

Unit Deployment Program

One of our great success stories in reducing PCS moves is UDP. Originally conceived as a six-phased program for infantry battalions and tactical aircraft squadrons and detachments in WESTPAC, UDP has been a major success in reducing personnel turbulence and increasing readiness. The UDP was implemented in 1977, converting 8,600 billets from one-year unaccompanied tours to six-month unit deployments. The expansion of this program to incorporate some combat support units will eliminate more unaccompanied tour billets overseas and save 1,600 rotational PCS moves annually.

Drug and Alcohol Abuse

Since 1982, the Marine Corps has followed a policy of non-tolerance of illegal use of drugs and abuse of alcohol. In light of our worldwide readiness requirements and our obligation to each other, we cannot afford to lower standards on the issue of substance abuse. As valid monitoring, survey, and detection tools have become available, they have been implemented to measure or effect policy in this area.

The significant reduction in admitted use of illegal drugs from 37 percent in 1980 to 17 percent in 1983, with a further reduction below 10 percent as reflected in the latest drug detection rates at the Navy Drug Screening Laboratory, clearly attests to our success against drug abuse. Effective leadership and a supportable deterrent - the urinalysis program - have been key to this success.

Similarly, the per capita rate for alcohol consumption has been reduced by one third and the number of heavy drinkers reduced by half with a corresponding increase in the light-to-moderate categories. Our emphasis has been on moderation. The Marine Corps has not declared "War" on alcohol, as consumption, which in most cases is perfectly legal, is a personal choice. Instead, we have asked each Marine to reflect on his or her drinking behavior and assure it is and continues to remain "responsible." This approach works. Of course, there are those for whom any consumption is irresponsible -- alcoholics. We continue to identify alcoholics and provide professional assistance for the medically-treatable disease of alcoholism. Eighty-five percent of those Marines identified as alcohol dependent who undergo formal treatment recover and are returned to full duty.

Family Programs

Family Service Centers (FSC's) continue to expand their role in supporting commanders by offering counseling, referral, and information to Marines and their families. We have added another center and now have 19 operational centers which directly reach 90 percent of our population. These centers serve over 100,000 clients annually in myriad ways ranging from relocation assistance and family enrichment programs to financial counseling and pre/post deployment briefings. Reserves and their families may now use the information and referral services of these centers. Toll-free lines assist in providing answers to a wide variety of questions from over 2,500 callers per year.

The Family Advocacy Program (FAP) has also expanded to provide non-medical counseling, diversion, and prevention programs. This year, approximately half of our FAP resources will be directed toward prevention of family violence. More counselors have been hired and extensive awareness efforts implemented to familiarize active duty personnel with the family advocacy program. One measure of success in this area has been increased reporting of incidents of violence. This change is not due to an escalating problem but to improved awareness and cooperation by medical, child care, family service center personnel, and the military police. Family advocacy programs bring help to dysfunctional families in an effort to stop violence.

Employment Resource Centers (ERC's) have opened in four locations, and now reach about one-third of our client population. Service will be expanded to a total of 16 locations in the next 2 years. Each center provides professional job counseling, automated job referral, and career development workshops. ERC's have professional job placement counselors who assist spouses and separating and retiring Marines in determining career goals, developing interviewing techniques, and expanding job screening skills.

We currently are automating the FSC's and plan to increase the staffing and funding of the support centers to develop media products for orientations and programs, to publish a professionally written family member resource handbook, and to offer "wellness" programs that will acquaint families with healthy attitudes about fitness, nutrition, stress management, and general health maintenance. Our present separation and retirement programs have been reviewed and are being revised to assist Marines in dealing with the stresses of changing vocations, finding employment, and understanding their benefits.

Morale, Welfare, and Recreation (MWR)

We continue to strive for more professional, quality morale, welfare, and recreation (MWR) programs within the Marine Corps. Extensive training and cross training is being conducted in all the MWR areas. Civilian recreational specialists are being placed in management positions to bring a more professional business approach and continuity to these important programs.

We are constructing facilities and conducting programs based on results of periodic patron attitude surveys and management assistance visits. We plan to spend approximately $35M in nonappropriated funds for construction of recreational facilities within the next few years.

In all, the Marine Corps is following a comprehensive MWR policy aimed at generating sufficient nonappropriated funds to accelerate construction or improvement of our facilities, while providing services that best meet patrons' needs.

RECRUITING

Marine Corps recruiting continues on a steady course. Both officer and enlisted recruiting efforts reflect our unwavering determination to fill the ranks with young men and women of the highest caliber.

This goal is particularly evident in officer recruiting. We strive to commission lieutenants who are fully capable of leading today's enlisted force. These men and women must combine traditional and proven leadership values with a progressive, open-minded approach needed in today's technical Marine Corps.

In fiscal year 1985, we met or exceeded our goals in every officer accession category. Further, we entered fiscal year 1986 with a very strong pool of officer candidates, allowing flexibility in matching the best qualified Marine to the right skill community. We expect to enter fiscal year 1987 similarly prepared.

Although the officer accession goal for fiscal year 1986 is 1,645, down 32 from the previous year, we anticipate requirements of 1,677 in fiscal year 1987. The 11 percent annual minority goal, which was achieved last year, remains a significant objective which receives constant emphasis.

Our demands for enlisted recruiting equal those for our officer programs. We must recruit and train bright, young Americans who can adapt to more technical weaponry while mastering the art of small-unit leadership and the complexities of fire support and communications. Fiscal year 1985 was another banner year for Marine Corps recruiting as we met or exceeded our goals in every category. Fiscal years 1986 and 1987 promise continued success, but not without challenges.

As a result of the strong showing in fiscal year 1985, we began this year with 59.8 percent of the total force non-prior service (NPS) quota in the Delayed Entry Pool, the strongest starting position in the history of our Corps. Numerically, our requirement for regular NPS recruits this year is 1,648 lower than last, although quality goals have risen. Our goal is to enlist at least 63 percent of our requirement from those who score in test categories I-IIIA on the AFQT, while matching or exceeding last year's achievement of percent high school graduates.

Quality goals also apply to reserve quotas. Reserve accession requirements this year increased by 687. As stated, we are committed to filling both the active and reserve ranks with quality Marines.

We expect to maintain the present course of balancing quantity and quality goals by increasing automation, more efficiently managing recruiting efforts in assigning training school seats, monitoring recruiting operations, and analyzing market trends.

Ultimately, the Marine Corps offers an intangible but critical attraction to the youth of America -- the challenge itself of becoming "one of the few good men and women." This challenge should continue to ensure that we recruit and retain those necessary to remain the Nation's Force-in-Readiness.

CONCLUSION

The Marine Corps remains a combat ready force, composed of a caliber of educated, patriotic officers and enlisted Marines believed impossible to achieve not that many years ago. Our current manpower force is a product of long-term planning and constant supervision. That same attention is currently directed to ongoing efforts to develop and prepare for the required quantity and quality force needed for tomorrow; action which will ensure that the Marine Corps will always be ready to meet its unique missions and challenges.

Mr. **Addabbo**. Thank you very much.

Last, but not least, the Air Force, General Shaud.

SUMMARY STATEMENT OF GENERAL SHAUD

General **Shaud**. I appreciate the opportunity to be here this afternoon. I, also, will summarize my summary and I will echo my colleagues' comments that we thank this committee for your support in the past that has given us the quality Air Force that we have today.

My report is going to confirm the wisdom of the investment we have made in our men and women, and highlight management initiatives that we have taken to control costs while, at the same time, we have increased our capability.

Air Force people, military and civilian, are the foundation of war-fighting capability, and continue to be the central focus of all of our Air Force priorities. High quality, well-trained, experienced people are central to all mission areas and programs. Our efforts to modernize our strategic nuclear forces, improve readiness and sustainability, increase airlift, modernize tactical forces and improve our ability to operate effectively in space depend on our men and women; they must be quality people.

Last year, we reported that the quality of Air Force people was never better. This assessment still rings true. Nearly every indicator by which we judge quality is up. Troops are better educated and highly motivated to serve. They perform well during their training and initial duty assignments, and many choose to stay even though they are in career assignments that are very lucrative for outside employment.

An equally positive note is that we have fewer disciplinary problems. Much of the credit for this dramatic turn around since the late seventies belongs to the Congress, who supported pay increases, improvements in travel allowances, family support centers and other people programs. This support has significantly raised the quality of life for our people and their families, and given them incentive to cope with the rigors of military life.

Congressional support has allowed us to compete with the private sector for a scarce manpower resource. There is no question that the people who wear the Air Force uniform today are the best that our country has to offer.

I would like to add that in spite of this rosy picture, we approach the future with guarded optimism. While retention is still above average, particularly in the high-skill areas, since fiscal year 1984, we have seen an increasing number of skilled, experienced folks leaving our Air Force, and we are entering a period of increasing uncertainty due to improving economy, fundamental changes in the basic fabric of American life—for example, wives that work—and the difficulties inherent in a fiscally constrained environment.

We have increasing perceptions among the members that continued pay caps and a mandated retirement change are the tip of the iceberg in terms of erosion benefits. Even though they are frequently grandfathered, our reports are that the troops are worried about them.

In our view, the Air Force cannot afford to return to the personnel crisis we faced just over five years ago. We believe your support in fiscal year 1987 for military and civilian pay raises, increase in household goods weight allowances, funding for a badly needed dependent dental insurance program, and relief from IRS ruling 83-3, are essential to maintain the quality people serving in the Air Force today.

In developing our 1987 manpower requests, we have taken deliberate management action to ensure the most efficient mix of forces and organizational structure. We have employed program efficiencies and conversion cost comparison studies for contracting out, and a formalized productivity improvement program to identify thousands of manpower spaces needed to offset the required growth. We are doing more, particularly in reducing support areas.

In fiscal year 1986, approximately 4,100 military support positions were shifted to higher priority missions; and in fiscal year 1987 we will reduce or realign almost 5,000 more.

Our headquarters functions have been reprioritized recently with zero growth. We accommodated spares acquisition management, the Fraud, Waste, and Abuse Program, activation of CENTCOM, Headquarters USSPACECOM, and the 23rd Air Force, which focuses on our special operations mission, within the limits set by a no-growth policy.

The bottom line is that the Air Force is making substantial progress in its efforts to respond to congressional concerns and budget realities; yet, provide the capabilities required to meet the threat.

We need congressional support to continue to work on these and other initiatives without manpower cuts, which are not program-specific.

My final point is that such reductions, manpower cuts that are not program-specific, cause inefficiencies and program delays. They do not eliminate the work; they eliminate the people to do it. Furthermore, they impact on the morale and welfare of those quality people who are again expected to do more with less.

That concludes my statement. I appreciate the opportunity.

[The statement of General Shaud follows:]

STATEMENT BY: DEPUTY CHIEF OF STAFF, PERSONNEL, AIR FORCE

I. INTRODUCTION

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, it is a privilege to appear before you today to present an overview of the status of Air Force manpower and personnel, and to discuss our initiatives for Fiscal Year 1987. This morning I will briefly summarize a statement that I ask be included in the record. My report confirms the wisdom of the investment you've made in our men and women in uniform. It also highlights the management initiatives we've taken to control costs, while at the same time increasing our capability.

Air Force people, both military and civilian, are the foundation of our warfighting capability and continue to be the central focus of all Air Force priorities. High quality, well-trained and experienced people are essential to all mission areas and programs. Our efforts to modernize strategic nuclear forces, improve readiness and sustainability, increase airlift resources, modernize the tactical forces and improve our ability to operate effectively in space are giving the Air Force the hardware it needs to perform the mission. However, it's our people who must operate and maintain these systems and who provide us our competitive edge.

Last year we reported that the quality of Air Force people was never better. This assessment still rings true. Nearly every indicator by which we judge quality is up. Our recruits are better educated than ever and are highly motivated to serve. They perform well during their training and initial duty assignments, and the many who choose to stay continue to be highly productive throughout their careers. On an equally positive note, we have fewer disciplinary problems. Air Force members and their families are proud of the job they do, and proud of the institution and the country they serve.

Much of the credit for the dramatic turnaround since the late 1970's belongs to Congress for its support of pay increases and improvements in such benefits as travel allowances, family support centers, and other "people programs". This support hassignificantly raised the quality of life for our people and their families. It has also given them incentive to cope with the rigors and hardships of military life. And, Congressional support has allowed us to compete with the private sector for scarce manpower resources. There is no question that the people who wear the Air Force uniform today are the best that our country has to offer.

In spite of this rosy picture, we approach the future with guarded optimism. While retention is still slightly above historical averages, since FY84 we have seen an increasing number of skilled, experienced people leave the Air Force, particularly pilots and enlisted personnel serving in high-tech and sortie-generating specialties. And, we are entering a period of increasing uncertainty due to an improving economy, fundamental changes in the basic fabric of American life (i.e., working spouses), and the difficulties inherent in a fiscally constrained environment. When we add these factors to the realities of military life (e.g., frequent relocations, involuntary family separations, difficult living and working conditions, and risk of personal injury or death) and the increasing perceptions among our members that continued pay caps and a mandated retirement change are the "tip of the iceberg" in terms of erosion of benefits, we understand clearly the challenges that lie ahead. In our view, the Air Force cannot afford to return to the personnel crisis it faced just over five years ago. We believe your support in FY87 for the military and civilian pay raises proposed in the President's Budget, an increase in household goods weight allowances for all grades, funding for a badly needed dependent dental insurance program, and relief from IRS Ruling 83-3 are essential to maintain the quality people serving in the Air Force today.

The Air Force fully appreciates the Federal budget dilemma and is working hard to review programs to ensure taxpayers get the most for their defense dollars. In the FY87 budget we have taken a particularly hard look at our programmed manpower requirements. Our FY87 budget calls for an increase of only 730 military and 1,558 civilian manpower spaces, the smallest manpower request since FY80, despite significant increases in mission responsibilities. Over the course of the Five Year Defense Program (FYDP), growth averages only three tenths of one percent military and two tenths of one percent civilian. Congress' message over the past several years is clear and we are working hard to hold future growth to an absolute minimum.

In developing our FY87 manpower request we have taken deliberate management action to ensure the most efficient mix of forces and organizational structure. We have used functional reviews, military-to-civilian conversions, cost comparison studies for contracting-out non-military essential positions, and a formalized, productivity improvement program to identify the thousands of manpower spaces needed to offset required growth. And, we are doing more, with particular attention to reductions in support areas. In FY86 approximately 4100 military support positions were shifted to higher priority mission needs or were eliminated. In FY87 we will reduce or realign almost 5000 more. By FY91 approximately 620,000 authorizations are scheduled to be studied under our Functional Review Program and the anticipated savings will also be used to reduce our annual manpower request to Congress.

Our headquarters functions have also been reprioritized. Recently we accommodated spares acquisition management, the Fraud, Waste, and Abuse Program, and the activation of CENTCOM, HQ USSPACECOM, and 23rd Air Force (MAC) within the limits set in FY81 by a self-imposed no-growth policy. The bottom line: the Air Force is making substantial progress in its efforts to respond to Congressional concerns and budget realities, yet provide the capability required to meet the threat.

We need Congress' support to continue work on these and other important initiatives without mandated manpower cuts which are not program specific. Such reductions cause inefficiencies and program delays. They do not eliminate the work, they eliminate the people to do it, and thereby impact the morale and welfare of those quality people who are again expected to do more with less. This leads to a degradation in mission capability and readiness. The end result: we lose the "qualitative edge" that we have worked so hard to gain over the last five years.

II. STRUCTURING THE FORCE

Active Military Manpower: Active military manpower is programmed to grow 730 spaces in the FY87 Budget (see Figure 2). However, 9,100 new requirements have been accommodated within the existing strength. These requirements include increases needed for: (1) deployment of the B-1 bomber, modernization of tactical fighters (F-16), airlift (C-5B), special operations aircraft, and

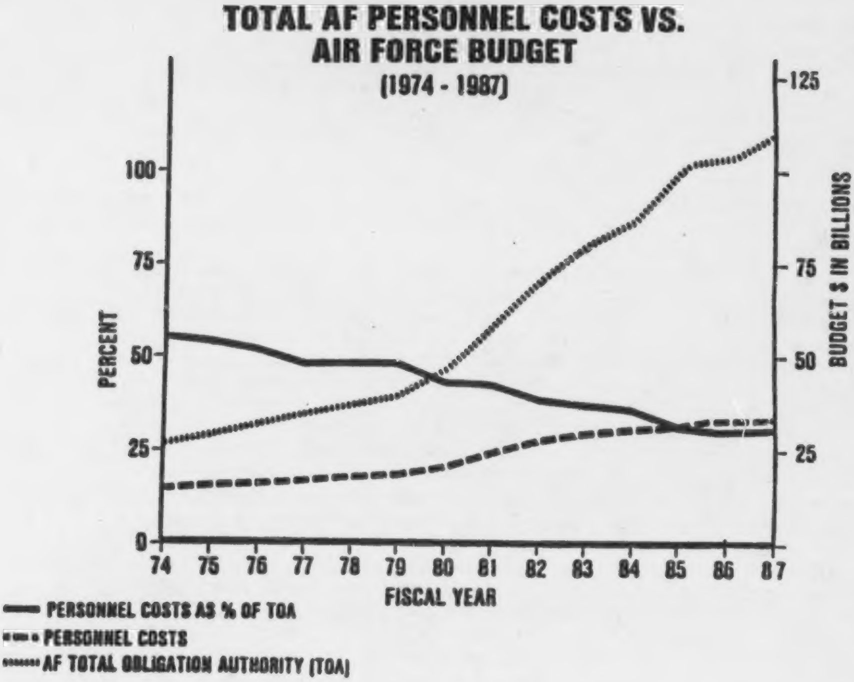


Figure 1

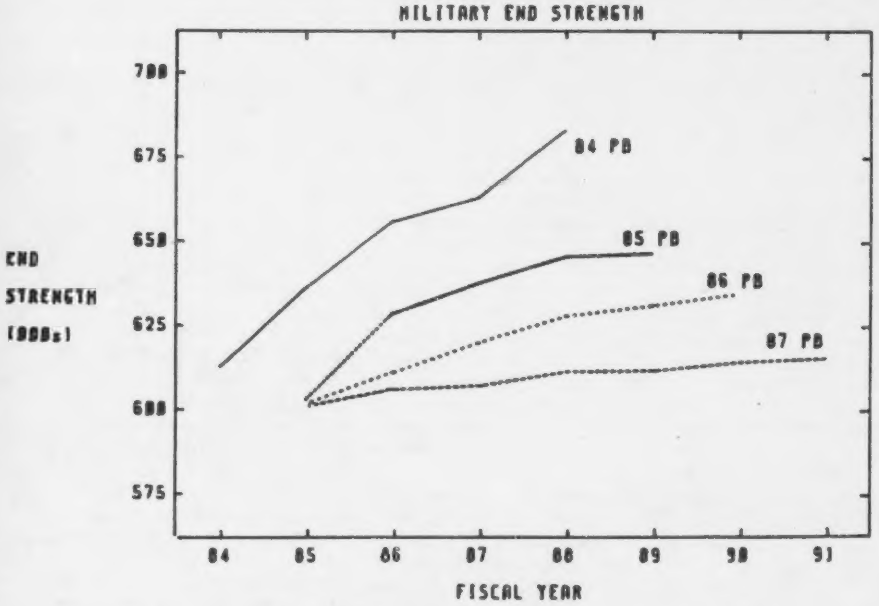


Figure 2

the ground launched cruise missile (GLCM); and (2) increased readiness and sustainability initiatives in aircraft maintenance, chemical-biological defense, and medical support. Offsets for these increases were identified by rebasing or eliminating older weapon systems and by Air Force management initiatives. For example, Congressional elimination of civilian ceilings for FY86 allowed us to convert 300 non-military essential positions to civilians. Contracting actions reduced 1500 military positions, and consolidating data processing and telecommunication centers provided additional savings.

Civilian Manpower: The Air Force is requesting a civilian manpower increase of 1,558 for FY87. These additional authorizations support new weapon systems such as the B-1B and F-16, aircraft maintenance, and C-17/B-1B/Peacekeeper logistics support. The growth includes an additional 700 civilians to provide full time support for our Air Reserve Forces. It also includes civilian increases resulting from converting military positions in non-military essential skills to civilian positions. Eleven hundred military positions have been converted to civilian in anticipation of contract cost studies.

We solicit Congressional support in FY87 to continue to manage civilian employment without end strength ceilings. The $73M savings that resulted from the FY85 test clearly demonstrated the Air Force's prudent management of the civilian workforce and we will continue to prove that ceilings are counter-productive.

Contracting: Civilian contracting, consistent with national defense requirements, is a viable and efficient means of accomplishing the Air Force workload. Since FY81 the Air Force has studied over 10,700 positions of which 7,800 were contracted or reduced as a result of cost comparisons. Currently we have over 450 activities under consideration; however, legislation prohibiting the contracting of certain activities, such as firefighters and security, is counter to our efforts. The Air Force supports a contracting program that gives the Secretary of Defense the authority to contract without unnecessary restriction. For instance, the recent Congressional increase in the A-76 threshold for full cost studies from 10 to 40 civilians will help reduce the time it takes to determine the most efficient method of accomplishing the workload. This change will impact 139 current cost comparisons.

Productivity Initiatives: The Air Force is actively pursuing a major initiative, through its Management Engineering Program, to increase productivity and reduce operating costs by eliminating unnecessary and inefficient work practices. Under the Functional Review Program, virtually every Air Force activity will be analyzed to increase operating efficiency without decreasing effectiveness. During FY87 we expect to start 90 functional reviews covering 85,000 positions. We are placing primary emphasis on enhancing operations through streamlined procedures and state-of-the-art equipment. These efforts are complemented by an aggressive Productivity Enhancing Capital Investment Program, which has saved almost 1200 spaces and offset a potential growth of over 2,500 additional deferred manpower positions. The average return on investment for this program is now 8-to-1 in terms of dollar savings and cost avoidance. To reduce our manpower growth, savings from the Functional Review Program and Productivity Enhancing Capital Investment Program are realigned to higher priority requirements. Two longer range Air Force programs also aimed at increasing mission capability while reducing manpower costs are Rivet Workforce and Reliability and Maintainability 2000.

European Troop Strength: Since FY83, Congress has limited the level of US military manpower in Europe. The FY86 ceiling of 326,414 for all Services includes manning for GLCM and Pershing II missiles and will be a permanent limit until Congress is convinced that our NATO allies are improving their conventional defense capability. We believe the focus should not be on allied contributions. Our force levels should be tied to countering the growing Soviet and Warsaw Pact threat. This threat includes force expansion, modernization, and improved force projection. We have established the size and composition of US forces in Europe to help our allies meet three vital objectives: preserve NATO's political integrity, deter aggression, and militarily defeat any attack on NATO.

We have made trade-offs to maintain mission capability and remain below ceilings through mission transfers, unit inactivations, undermanning and civilianization. To complete the GLCM program, as well as other Air Force programs that USCINCEUR (the theater commander) has identified as "critical growth," we must sacrifice lower priority theater resources that will decrease available conventional capability. At the same time, the attention of the theater Commander and his staff is diverted from combating the threat to working the ceiling issue. If Congress continues to impose constraints on US military manpower levels in Europe, readiness will be degraded. We believe that the ceiling should be eliminated; if not, then, USCINCEUR should determine the appropriate force mix and level for each Service based on his analysis of the Soviet threat.

The Air Reserve Forces: The Air Force--including all active duty, civilian, and reserve components--organizes, trains, and is equipped as a team. The Air Reserve Forces (ARF) make significant contributions to security and military readiness by providing depth, continuity and balance to the responsiveness and flexibility of the active force. The proper active/ARF mix ensures that we have the force structure and manpower to meet the requirements for deterrence, peacetime presence, and immediate response.

For FY87 Air National Guard growth of 290 Military Technicians, 1,087 Active Guard/Reserve spaces, and 3254 drill positions (which includes the 290 military technicians) supports force structure, modernization, readiness, and sustainability initiatives. Assignment of C-5, C-141 and C-130 aircraft, as well as F-16 modernization efforts, are the major reasons for this increase. Additional manpower was necessary to support this force structure and improve readiness and sustainability in medical functions, PRIME RIBS, and the F-4 maintenance areas.

The Air Force Reserve growth of 279 Air Reserve Technicians, 41 statutory tour spaces, and 3059 drill positions supports assignment of C-5s and modernization of the force with F-16s. Readiness and sustainability are supported through medical increases, civil engineering, and additional mobilization augmentees.

While the Air Force leads in implementing the Total Force policy, criticism of specific areas continues. There is a movement to reduce additional active manpower authorizations by transferring more missions to the ARF. Congressional involvement in the active/ARF mix determination process has been based primarily on the misconception that transfers from the active to the ARF component will reduce Total Force costs with no loss in overall capability.

While there is little disagreement that ARF units are usually less expensive to maintain than similar active units, analysts must recognize that the reduced costs are caused primarily by the reduced activity levels. Other factors, such as personnel costs, retirement costs, base operating support costs, and military and civilian grade structure comparisons, must also be addressed when comparing active and ARF units. Readiness indicators show that ARF units meet their required combat capabilities. However, in some mission areas their selected combat roles are more narrow and less training-intensive than their active counterparts. Thus it is cost-effective to have the ARF perform these specific missions. Whenever active-to-ARF transfers are considered, Total Force combat capability, cost-effectiveness, and specific mission requirements must be addressed.

Recruiting: In FY87 the Air Force needs to recruit 66,900 enlisted members and over 3,900 officer candidates and health professionals. Of the enlisted accessions, 2,900 must be fully qualified prior service applicants who possess critical skills. In addition, 30 percent of the officer requirements are in the critical and highly competitive health professions area. We must accomplish this despite a decreasing number of young people, a strengthening civilian economy, and stiff competition from civilian schools and industry.

To meet the FY87 recruiting objectives, Air Force productivity standards must continue at current high levels. Based on current projections we will recruit about 20 percent of DOD's total accessions with only 10 percent of the resources. In turn, Congressional support of ongoing initiatives is critical, and funding and manning should remain at adequate levels. We believe our recruiters are up to the challenge, but any decrease in funding will jeopardize our mission accomplishment.

Enlisted Recruiting: The backbone of our recruiting success has been and will continue to be the all-volunteer recruiting force. The record of Air Force recruiters speaks for itself, particularly in the areas of cost-effectiveness and productivity. Our cost per recruit is the lowest in DOD while recruiter productivity is far greater than the DOD average. We believe the increase in Special Duty Assignment Pay to a maximum of $275.00 in the FY85 Authorization Act was a positive and much needed initiative that will help maintain this success.

Enlisted Recruiting Objectives

Program	FY85 (Actual)	FY86	FY87
Non Prior Service	65,017	65,000	64,000
Prior Service	2,002	2,000	2,900
	67,019	67,000	66,900

Figure 3

Officer Recruiting: In FY87 our officer objective is 3,941. Although this number is equivalent to that of FY86, it may be more difficult to meet because of increased requirements for critical speciality physicians and dentists.

Officer Recruiting Objectives

Program	FY85 (Actual)	FY86	FY87
Officer Training School	2,940	2,306	2,498
Health Professionals	1,757	1,742	1,443

Figure 4

Civilian Recruiting: A new intern recruiting program was initiated in 1985 to recruit recent college graduates for entry-level GS-5 and GS-7 trainee positions in a variety of occupational fields. The program, PALACE ACQUIRE, is based on work force analyses of turnover rates, mission, and technological changes. The contracting career field, for example, already has a turnover rate that is 13 percent above other career fields, and the Air Force projects a 20 percent loss of contracting professionals due to retirements alone in the next five years. PALACE ACQUIRE will maintain civilian work force stability and expertise in major functional areas by providing a pipeline of experienced, highly-skilled civilian employees. This valuable civilian recruiting tool has been continued in the FY87-91 Five Year Defense Program.

Training: Training is both a powerful recruiting incentive and an essential military function. Training in the Air Force, including military construction and base support, costs more than $1.6 billion--almost 80 percent of that is salaries for military and civilian personnel. The Air Force gets a good return for its training dollar. We have reduced the average initial skill course length from 16.8 weeks in 1970 to 11.7 weeks in 1985, even though there have been quantum leaps in the technology being taught.

While training is a "cost of doing business," we are well aware that we must find new and innovative ways to do our training. We are using simulators and computer based instruction to improve the quality of training at a lower cost than would otherwise be possible. We are also adapting interactive video disks, high resolution computer graphics, and exportable courseware used on computers already in offices and shops to moderate costs.

The Air Force has an initiative in FY87 to establish a Manpower, Personnel, and Training (MPT) function at the Aeronautical Systems Division, Wright-Patterson AFB, OH. Eventually, we want to establish such a function at each Air Force Systems Command product division. The MPT function will be responsible for improving front-end analysis and bringing critical MPT factors into weapon system design considerations. This will provide a better man-machine interface and provide systems that have lower human costs throughout the system life cycle.

We are also asking for a modest increase in FY87 funds for contract training and travel funding. Without these additional funds, we cannot train Air Force personnel on new and modified systems in time for the systems to go operational. This will result in shifting costs from training to operations and maintenance for extra spares and extended contractor support.

Quality training is not a luxury; it is good economy and an essential element in Air Force readiness.

Retention: Air Force retention peaked in FY83 and, as expected, has started to decline in some areas. Although declining, reenlistment rates remain high by historical measure. Pilot retention is our greatest concern as their rates continue down; however, certain high-tech and sortie-generating enlisted specialities are also showing downward movement. Factors which may result in a decline in retention across-the-board include improved private sector employment opportunities, a pay comparability gap, threats to the military retirement system, and the uncertainties of future military budget cuts. Favorable economic conditions, such as airline hiring and low unemployment rates, constitute a significant "pull" factor. The Air Force must be cognizant of and minimize the effect of additional "push" factors created by inequitable budget cuts or policy changes.

Officer Retention: Navigator and nonrated line officer retention rates have stabilized near record levels while pilot retention continues to decline (Figure 5). The pilot cumulative continuation rate declined from 72 percent in FY84 to 59 percent in FY85, and the downward trend is expected to continue.

Airline hiring has provided unprecedented opportunities for employment for Air Force pilots (Figure 6). Airlines hired over 7500 pilots in CY85 in anticipation of industry-wide expansion. These expansion efforts and increased airline pilot retirements will likely produce a sustained demand and competition for pilots through the decade, although probably at more moderate levels. The demand for pilots has placed a premium on the experienced and disciplined Air Force pilot.

Over the past several years, high retention has enabled the Air Force to eliminate large pilot shortages (1,302 in FY79) despite an increasing pilot requirement. The pilot inventory and requirements are currently in aggregate balance, but the situation is delicate. Improved retention will be required to prevent shortages from reappearing.

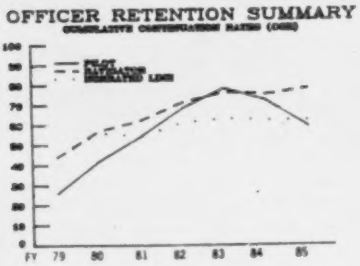


FIGURE 5

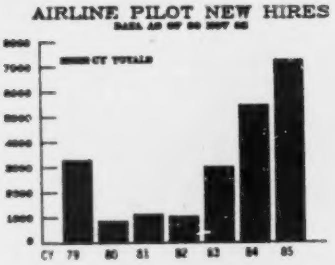


FIGURE 6

Enlisted Retention: Reenlistment rates peaked in FY83, but have declined since then (Figure 7). One area of concern is the 12 percentage point drop in the first-term rate. History has taught us that the Selective Reenlistment Bonus (SRB) Program is vital to satisfactory retention in our critical, warfighting skills. Significant cuts to SRBs have set the stage for greater losses followed by personnel shortages similar to those suffered in FY79.

While overall enlisted manning is currently at authorized levels, we are experiencing mid-level NCO shortages in certain combat-related areas, such as intelligence, avionics and aircraft maintenance. To maintain experience, we have increased promotion opportunities in Chronic Critical Shortage (CCS) Skills, beefed up prior service recruitment of selected Air Force members, and implemented a policy that keeps a few qualified NCO's beyond mandatory retirement points. However, the most effective initiative has been the SRB program. Our concern is whether these initiatives will be sufficient to meet the private sector competition for our highly trained people.

In light of increasing job opportunities in the private sector and accompanying higher salaries, we can expect stiff retention challenges well into the 1990's. Based on the current environment, we anticipate further reenlistment rate declines in FY86. We are well aware that our large, second-term force reenlisted during poor economic conditions with high unemployment. They will soon reenter the decision window, and the potential exists for heavy losses as early as FY87. Additionally, reductions in quality of life programs which may result from Gramm-Rudman legislation could accelerate this scenario and we could experience increased losses in mid-FY86.

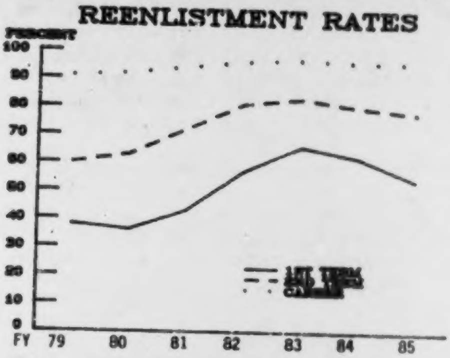


Figure 7

Civilian Retention: Though we have been able to attract young, professional talent to the Air Force, we are concerned about retention. Recent analyses indicate that by 1990, 25 percent of our civilian scientific, professional and management population will have retired or be eligible to do so. This, in conjunction with other projected work force changes, could mean losing 31 percent of our engineers, 42 percent of our scientists, 29 percent of our logisticians and 24 percent from the financial management field. To insure work force stability, the issues of federal pay, benefits, and retirement systems need long-term solutions. It is also time to work toward the goal of adjusting white-collar pay by occupations and locality.

Women in the Air Force: The Air Force has long been a leader in providing opportunities for women to serve their country. We are proud of the fact the Air Force has the highest percentage of women in any of the Armed Services (11.8 percent as of December 31, 1985). Congress believes, however, that we can and should access more women, thus freeing up qualified men to serve in other Services. This recommendation was predicated on the Air Force's small number of jobs which are restricted by the combat exclusion policy (compared to the other services), and the impact of the declining youth cohort on recruiting by all the Armed Forces. In the FY85 DOD Authorization Act, we were directed to enlist 19 percent women in FY87 and 22 percent in FY88. Believing these quotas to be arbitrary and without any valid basis, the Air Force conducted a study to analyze the effects of varying male and female force levels.

Our study was completed and forwarded to Congress in April 1985. The study refuted fears of the impact the declining youth cohort would have on the Services' abilities to recruit high quality enlistees. Concurrent with the release of the report, the Secretary of the Air Force approved a new combat exclusion policy which more clearly states the type of positions to which women may not be assigned. The significant change to policy is that women may not be assigned to positions where there is a high probability of hostile fire and capture. As a result of this change, 800 additional positions were opened to women. In addition, CINCSAC opened Minuteman combat crew positions to women (but not with mixed gender crews). The study concluded we should not recruit men and women in fixed percentages, but should develop a genderless feature in our accession methodology which will allow the male/female mix to fluctuate with changes in the eligible/qualified/interested marketplace. Based on these current factors, we anticipate female accessions of about 19 percent for FY86. We have implemented this procedure, but need relief from the mandated female accession percentages in order to fully realize its benefits.

III. MILITARY COMPENSATION AND QUALITY OF LIFE ISSUES

Permanent Change of Station (PCS) Reimbursements: Historically, the lack of adequate PCS reimbursement has been one of the most critical personnel issues in the Air Force. A 1985 survey showed that, exclusive of home ownership costs, for every $3 our members spend on a PCS move, only $1 is reimbursed by the government. This translates to median unreimbursed expenses ranging from approximately $1,500 to over $2,700 depending on grade. Consequently, over half our members (58 percent) have had to borrow or withdraw money from their savings in order to meet their PCS expenses.

PCS relocations are a common occurrence in military life. The average first termer relocates twice; career military seven to eight times. The recent Congressional actions (e.g. funding a four day temporary lodging expense and improvements in junior enlisted travel) have significantly reduced the financial burden associated with PCS moves. Preliminary estimates are that these new improvements will reduce the member cost/reimbursement ratio to approximately 2.8 to 1. However, it is important that we maintain momentum to further reduce PCS hardships. To this end, we urge Congress to fund a household goods weight increase for all grades in FY87. A congressionally directed study to set weight allowances should be ready for FY87 action.

Dependent Dental Care: Dependent dental care is our primary health care initiative. It is essential to the health and well-being of Air Force dependents. The FY86 Authorization Act authorizes dependent dental insurance coverage to include preventive, diagnostic, emergency and basic restorative care, but specifies this new program cannot be funded prior to September 30, 1986.

The need for dental insurance has been consistently mentioned by service members during quality of life surveys and base visits. A relatively low cost program (AF share $26.3M for FY87), it will more than pay for itself in terms of recruiting and retention. It will be a major morale booster and will help dispel the perception that military benefits are being eroded.

The American Dental Association estimates that by 1990, 50 percent of the population will have some form of dental coverage. To maintain a competitive edge over private industry, we need a fully funded dependent dental insurance program.

IRS Ruling 83-3: The Internal Revenue Service (IRS) has indicated that Revenue Ruling 83-3, which disallows deductions for mortgage interest and real estate taxes to the extent such expenses are paid from a tax-free allowance, may be imposed against military homeowners in January 1987 unless Congress intercedes. Such a ruling would have a devastating financial impact on military homeowners. Nearly 300,000 of them would incur an additional tax liability of approximately $1,000-$4,000 annually--the equivalent of a three to five-percent pay cut in the grades most affected: the career force of E-5s through O-5s. Further, Ruling 83-3 ignores the fact that the tax-exempt status of military allowances is an integral part of the military compensation system and has been accounted for in establishing pay levels since 1965. The Air Force strongly opposes the IRS ruling and supports House passed legislation in the tax reform bill to preclude implementation against military homeowners.

Pay Comparability: The long-term success of the all-volunteer concept is predicated on keeping military pay comparable to private sector compensation. The recruiting difficulties and exodus of experienced mid-career officers and enlisted members from all the Services in the late 1970s were due, in large part, to the significant gap that emerged between military and civilian pay beginning in the mid-70s. Since comparability was last achieved in October 1981, the gap, as measured by the Employment Cost Index (ECI), has grown to 8.1 percent--larger than the gap that existed in the late 1970s. The last four pay increases have been capped and pressure is strong to trim the DOD budget.

Today, we face competition from the private sector that is, in some ways, worse than we began to experience in the mid-70s. Since FY83, when our retention peaked, the civilian unemployment rate has fallen from more than 10% to under 7%--a decrease of over 3 percentage points. In the comparable period before FY79, our worst retention year, the unemployment rate fell by less than half that much. Our concerns are further heightened because, unlike the 70s, our force is expanding and the Air Force no longer has the large post-Vietnam pool of experienced officers and airmen to absorb the effects of a retention crisis.

The All-Volunteer Force has produced a tremendous improvement in the quality of our people. To maintain this quality, the long-term objective of pay comparability should be pursued. We urge Congress to support the President's request for a four (4) percent military pay raise in FY87.

Military Retirement: Since 1948, when the current system was enacted by Congress, our military retirement system has provided the cornerstone we need to maintain an effective, combat-ready force to safeguard our national security interests. It has served us during the best of times and the worst of times by giving us the incentive to help attract and retain the right numbers of quality men and women to the service of our country in both war and peace, during recessions and unprecedented economic growth, in the face of an unstable system of pay and allowances, and through the emergence and success of the All-Volunteer Force.

No other element of the military compensation system is more important to our career personnel. Our studies and surveys consistently reaffirm that the military retirement system is the number one career incentive. Cutting this system would most readily cause the loss of our talented and experienced careerists. Our people view this entitlement as the stable and unifying element in an otherwise volatile compensation system, and as deferred compensation for the many sacrifices we call on them to make. But recent Congressional actions have threatened the stability of the retirement system.

Major changes currently under consideration will, if enacted, reduce the lifestream value of retired pay by 16 percent. When added to the 13 percent loss due to high-three averaging enacted in 1980, our future retirees will receive over one-fourth less retired pay than current retirees. After 20 years of military service, future members will receive about 25 percent of regular military compensation (the military equivalent of civilian salary). Current retirees receive about 34 percent. We are concerned that this cost savings agenda could undermine the morale of our men and women in uniform. They may justifiably perceive that Congress no longer values their sacrifices as much, while the sacrifices we ask them to make have not changed.

We do not know precisely at what point cuts in military retirement would exact an irreparable loss of the career incentive, although we feel strongly there is one. Our instincts tell us that this latest cut puts us dangerously close. We are concerned that these proposed cuts will destroy the delicate balance of overall compensation and, by failing to provide the proper mixture of career incentives, eventually result in a lower quality military force.

One thing is certain: we cannot continue changing the retirement system without considering the implications of changes already enacted and pending. But no mathematical model or survey can tell us what we need to know: what is the most efficient and effective total compensation package for the military? Only observed behavior under a changed system can provide the answers. The system we have now has stood the test of time, through peace and war, and has served us well. Further change carries substantial risk.

Aviation Career Incentive Pay: ACIP was established by the Aviation Career Incentive Act (ACIA) of 1974. It provides an incentive for members to complete a full aviation career by meeting statutory requirements for flying ("gates"). As a career incentive, ACIP continues while rated officers are in non-flying jobs, insuring a ready resource of experienced aviators if needed for combat, and providing valuable operational flying expertise in key staff positions.

Preserving the current incentive value of ACIP is vital, especially since the competition from the private sector for pilots is increasing. Airline hiring has continued to increase over the past few years (over 7,500 pilot hires in CY85), and today almost any Air Force pilot wanting a civilian aviation career can find a job. This situation will probably continue beyond FY87.

Retention of pilots, where training costs average $750,000, is a primary consideration in rated force management. In 1979 the Air Force experienced a severe pilot loss but was able to absorb the loss due to a large pool of pilots left from the Vietnam era. Today that reserve of pilots is gone. Current retention is extremely fragile and any large losses would result in the Air Force being unable to meet its requirements. Although pilot production increases could offset the losses numerically, the length of time needed to season these new pilots would result in an overall decline in the experience level and combat capability of the force. This loss of experience translates into degraded combat capability and decreased flying safety.

Overall, ACIP is a cost effective program. The savings in training costs by preventing the loss of 190 pilots would offset the entire FY87 ACIP Budget of $141.4M. The aviation career concept embodied in ACIP provides a predictable, continuous entitlement that has proven essential to rated force management objectives.

Selective Reenlistment Bonus (SRB) Program: The Air Force continues to closely scrutinize its SRB program. Bonuses are paid for only those critical skills that have shortages or insufficient reenlistments to maintain the future health of the skill. Headquarters USAF reviews all SRB skills at least twice a year and makes program adjustments as required. These programming adjustments consist of adding and deleting skills as well as making appropriate changes to payment levels. Currently, 87 of a possible 236 skills receive an SRB--the majority of them being in the intelligence, electronics, avionics and aircraft maintenance career fields. A $6 million dollar SRB reduction in FY86, coupled with perceptions of uncertainty regarding future benefit and entitlement issues, necessitates full congressional funding of the FY87 SRB Program.

Family Support Centers: Military families make strong contributions to retention decisions with a resulting positive impact on readiness and national defense. Two-thirds of our Air Force people have family responsibilities. These families affect the morale and job performance of Air Force members and are the dominant factor in the decision to remain on active duty. In today's environment it is essential that we continue to meet family needs. To help fulfill that responsibility we are establishing Family Support Centers (FSCs) at 123 major bases. We will build ten new centers for a total of 64 in FY87, and intend to complete all 123 centers by FY91. We strongly urge continued congressional support for this program.

Family Day Care: The Air Force is developing a family day care program (care of small numbers of children in quarters by a military spouse). This program expands the child care options available to parents. It allows the base commander to approve a certain number of homes after they have been inspected. Prospective family day care providers have their base records screened for suitability to provide child care and attend training sessions on child development, health, and safety procedures. The family day care program expands child care capacity on the base without the Air Force incurring additional capital expenditures. The availability of this type of care is especially important for our families with young infants, handicapped children, and children who cannot be cared for in a large group because they are susceptible to illnesses. It also significantly helps families that work shifts and have extended TDYs--those families that need care when it is not cost effective to have the child care center open. To implement the family day care program, the bases hire a coordinator who identifies, approves, and supervises the homes. The Air Force has identified 109 new positions as assistant child care directors to implement this program. Continued support of this Air Force initiative is essential if we are to respond to Air Force families' needs.

IV. LEADERSHIP ISSUES

Managing PCS Moves and Costs: It is vital to mission success that we maintain a viable Permanent Change of Station Program which allows us to meet our global commitments while providing fair and equitable treatment for our people. With these requirements in mind, we have aggressively managed ourPCS programs to increase stability and reduce costs for both the government and our people. As an example, in 1986, we are increasing the overseas tour lengths at 19 locations (18 were increased on 1 Jan 86). These increases include major bases at Eielson AFB, Alaska; Kadena AB, Japan; and Clark AB in the Philippines. We expect other increases to be effective later this year as a result of a comprehensive all Services review of tour lengths. We are committed to eliminating as many unaccompanied overseas tours as possible, but recognize the need for such tours in certain areas where the environment is clearly not suited for families, or where the cost of necessary support facilities is prohibitive. We are committed to maintaining 12-month tours in areas where dependents cannot be located. A longer period of forced family separation could easily result in more separations in lieu of reassignment with the attendant replacement training costs.

Other efforts to reduce moves and increase stability include higher overseas selection priority to those who volunteer to serve an extra year overseas, a liberal overseas extension program, and the Oversea Tour Extension Incentive Program. We have increased the number of involuntary overseas extensions for those with short retainability in order to eliminate the need to pay for a move back to the States and then another move less than one year later for separation. We have increased the time on station required for certain CONUS moves and have had considerable success with the Voluntary Stabilized Base Assignment Program, which guarantees up to five years stability at selected, hard-to-man bases. We have also helped cut the cost of moves by encouraging the Do-It-Yourself Move Program, which saves household goods shipping costs.

Our efforts have been successful. Despite higher overseas requirements and greater commitments to man new weapons systems, we have increased the time on station between operational, rotational, and/or unit moves from 23.7 months in 1974 to 49.5 months now.

We solicit your continued support to maintain a viable PCS Program.

Drug and Alcohol Abuse Control Program: The Air Force believes substance abuse jeopardizes combat readiness and must be met with an aggressive and sustained program of deterrence. We are continuing to focus all available and necessary resources to minimize the adverse effects of drug and alcohol abuse on our military, civilian, and family members. For example, we have strengthened our policies and management practices to provide our field commanders with improved and responsive tools to discipline identified abusers and to selectively rehabilitate those being retained on active duty. Concurrently, we have refined and toughened our quality force standards of conduct to insure the retention of productive and well-disciplined members. To solidify preventive measures to combat potential abuse, new approaches in our information and education programs have been employed with continued command and supervisory support. To address the needs of Air Force families experiencing the persistent, debilitating effects of alcohol-related problems, closer cooperation and coordination between base staff agencies have been regulated. Training seminars and workshops for interagency personnel have been and will continue to be conducted to explore new techniques and methods to enhance program services. Furthermore, a comprehensive Driving While Intoxicated Initiatives Plan has significantly reduced the number of alcohol-related incidents among Air Force members.

Our commitment to control substance abuse has resulted in a steady decline in all reported categories of abuse from previous years. For example, our urinalysis positive rate for marijuana has dropped from 12-15 percent in 1983 to less than five percent in 1985. For other drugs, which have always been significantly lower for the Air Force, there are similar improvements. Because of our emphasis on alcohol abuse prevention and DWI identification, we are also seeing declines in alcohol abuse. The 1985 DOD Worldwide Survey shows a decrease in the amount of lost productivity due to alcohol abuse (i.e. individuals reporting one or more incidents within a year) from 28.0 percent to 19.4 percent. We will continue to intensify our efforts to further diminish the potentially adverse impact of substance abuse on mission readiness.

General Officer Grade Relief: Again this year the Air Force urges Congress to act on DOD's Comprehensive Flag and General Officer Management Legislation. Our position remains unchanged:

the number of general officer authorizations must grow to support our increased mission, budget, and personnel strength. Last fall, we were encouraged by indications that both Armed Services Committees would schedule hearings early in 1986 on this critical legislation; unfortunately, no hearings resulted. If it appears that Congress will again be unable to take up this important legislation, we ask authorization to return to the FY81 strength levels. Even as an interim measure, this token increase would go a long way towards improving our leadership and management posture in the Air Force at practically no cost to the taxpayer.

In the event this relief is not forthcoming, we must again ask Congress to extend or make permanent the exemption granted in the FY85 and FY86 Authorization Bills which will allow us to continue a four-star general as commander of our Air Training Command.

V. CONCLUSION:

Mr. Chairman and members of the Committee, we have addressed requirements that will achieve a fiscally responsible force, capable of meeting Air Force worldwide commitments. We are concerned about the impact a robust and healthy economy, characterized by lower unemployment rates, improved job stability, comprehensive benefits in the private sector, and increased demand for high technology skills will have on our ability to recruit and retain high quality people. As we look to FY87 and beyond, we once again seek your continued support for our programs and initiatives to help counter these factors. Your support will continue the momentum of the past five years and insure our future readiness.

Mr. **Addabbo**. Thank you very much.

As I look around and look at the uniforms, I find you, General, with four support witnesses—the Army only has one, the Navy only has one—how come you have got so many?

General **Cheatham**. Two of them wanted to observe, sir. The lady supports me.

Mr. **Addabbo**. And, General, why?

General **Shaud**. We have both a personnel expert present to support me, and also manpower, which is now in a different DCS in the Air Force. I have General Monte Montgomery with me as my manpower expert.

EFFECTS OF GRAMM-RUDMAN-HOLLINGS

Mr. **Addabbo**. I am going to be asking the questions of you, General Chavarrie. If any of you other gentlemen wish to add anything to it, don't hesitate. I would normally be asking each of you the same individual questions, but in the interest of time we will go to the one witness.

The committee understands that even though the military personnel account was exempted from fiscal year 1986 reductions for the Gramm-Rudman-Hollings legislation, a certain amount of money was reduced from the military personnel account.

Have there been any reductions to the military force due to Gramm-Rudman-Hollings?

General **Chavarrie**. No, sir, not at this point. We went through a drill, and I think the total number was something less than $150 million which was cut, and it was mainly PCS. We made some extensions. We had some early outs; people that were due to get out got out a bit earlier. We saved some money on PCS and on training costs for the reserve. So, there was no reduction in military personnel as a result of that drill.

Mr. **Addabbo**. Break out for the record the numbers of officers and the number of enlisted men that have been reduced from the force by early out or whatever it might have been.

General **Chavarrie**. I will do it for the record, sir.

[The information follows:]

All four Military Services are conducting early out programs. These are being conducted under different criteria depending on the needs of the Service. The Army is running a mandatory program and plans to discharge 27,700 enlisted and 630 lieutenants up to 90 days early. The Navy is running a voluntary program with applicants allowed to ask for separation up to 90 days early. They expect to release 5,600 enlisted personnel and 54 officers early. The Air Force has a voluntary program for enlisted only with a goal of 5,200 early releases. The Marines are discharging 4,700 enlisted personnel in selected overstrength specialties 30 days early. No Marine officers are being released early.

Mr. **Addabbo**. What will the effects on the military personnel force be if the automatic cut provision of Gramm-Rudman-Hollings goes into effect for fiscal year 1987?

General **Chavarrie**. I think the correct way to look at it is that the President sent over his budget, and in that budget we, of course, met all the requirements of the reductions under Gramm-Rudman. So the President's budget meets the $144 billion deficit.

I think if the Congress, in its wisdom, could pass that budget, there wouldn't be any effect at all on military personnel. That is point number one.

It is very difficult for me to be able to tell you what the effect would be since we don't really know what the final deficit number is. I remember the number of the deficit was $220 billion some time back. It is now $180 billion. I hope that it will go lower. I hope that it doesn't go higher. But we don't know what the number would be that we are going to have to deal with, and rather than saying now, in a piecemeal way, if this happens we will reduce X number of people, and if that percentage happens we will reduce another number, I think we would serve you better to wait until we knew what the reductions were and then, in the context of the total defense budget, the Secretary of Defense can make a better judgment.

So, it isn't just military personnel that we would take account of in looking at the impact of reduction. It would be procurement, personnel, O&M, and the whole bag. There isn't a number specifically that we can give on what the effect on personnel is until we know what the number is that we are going to be dealing with in Defense as a whole.

Mr. **Addabbo**. The committee understands the Services are extending tours, reducing PCS moves, and offering early out discharges in order to reduce the cost of the military personnel accounts.

Is that true?

General **Chavarrie**. They will to speak this. Let me make a general statement, sir.

There are a lot of things that the Congress has told us to do, and we are looking into them. Just one example, among others, is PCS. They say we move too much and too often, so we now have 10 studies that were mandated to us last year to do on PCS—extend tours, do something to restructure the weight of household goods problems, do something to reduce the amount of money we pay people going overseas—all of these various things to reduce the total PCS account, which is now capped at about $2.8 billion.

We have a study which we will be reporting to the Congress on PCS. It was due on the 1st of March. It will be here within a week. It is looking at up to about a 10 percent reduction in PCS monies, and that would include some of the things you were talking about.

Now, whether the Services are doing anything right now, like having people leave early, I will defer to them.

General **Elton**. Mr. Chairman, I would comment from the point of view of the Army. With regard to early outs, we have gone out and have asked our major commanders to determine those soldiers who would ordinarily be leaving about the August-September time period, and move their discharge time back into the summer. This will cause us only a temporary slowdown in our operational tempo. We hope to achieve anywhere from 20,000 to 30,000 in this voluntary early out program.

That is just one of the aspects of the Gramm-Rudman impact, though minor in 1986. That, plus the tour extension, was our slice of it.

General **Shaud**. In the Air Force, as we work the PCS accounts specifically, many of the initiatives like extended overseas tours trying to create incentives for our folks to cut down on the number of moves, we are increasingly encouraging them to do that and are achieving savings in those areas that we have identified in years past.

Admiral **Carlson**. We have reduced PCS, extended tours, and delayed some training moves. The Navy will save money by those actions.

We also are implementing an early out program, much as the Army is, to let some people whose obligated service would end in August or September depart the Service on a voluntary basis earlier in the summer. We think we can achieve some savings by those actions.

General **Cheatham**. We are doing essentially the same except with regard to PCS. A few years back, we initiated the Unit Deployment Program, which has saved us almost 11,000 PCS moves a year. We are down to rock-bottom. There is no fat in the PCS account.

Mr. **Addabbo**. What would the actual effect of Gramm-Rudman-Hollings in 1986 be if military personnel were not exempted?

General **Chavarrie**. I think the estimate was we would have to release some 280,000.

Mr. **Addabbo**. I would ask each of you gentlemen to supply for the record the amount of money that you plan to save by using the methods we have talked about, early out, et cetera. Supply the total amount of funding that was reduced in 1986 in the military personnel accounts.

[The information follows:]

Army Answer. The FY86 Gramm-Rudman-Hollings reduction for Military Personnel, Army is $74.5 million. $41.2 million will be applied to an early release program for enlisted soldiers who have served at least 24 months on active duty and are scheduled to end their term of service in FY86. $33.3 million will be applied to permanent change of station tour extensions for all soldiers.

Navy Answer. The Navy implemented a voluntary early release program for members who would normally separate late in the fiscal year. This program will affect about 5,600 members for an expected savings of $23.5 million. The PCS move program will be realigned to remain within the revised availability. Realignment initiatives will include length of moves, cost of moves and fact of life changes. The PCS savings for these changes will be $18.4 million for a total savings in the FY 1986 Military Personnel, Navy appropriation of $41.9 million.

Marine Corps Answer. The fiscal year 1986 Gramm-Rudman reductions in Military Personnel, Marine Corps will be applied to the enlisted pay accounts ($10.3 million) and Permanent Change of Station ($5.8 million).

Air Force Answer. Air Force funding was reduced $46.5 million in FY86; $15.5 million in Enlisted Pay and Allowances, $1.5 million in Enlisted Subsistence and $29.5 million in Permanent Change of Station (PCS). Early release of approximately 5,200 Airmen will save $17.0 million; $15.5 million in Enlisted Pay and Allowances and $1.5 million in Enlisted Subsistence. 27,000 PCS moves will be delayed or cancelled saving $70.0 million; $29.5 million for Gramm-Rudman and $40.5 million for newly authorized unfunded PCS entitlements.

DECREASE IN DEPOT MAINTENANCE WORKLOAD

Mr. **Addabbo**. The gentleman from Pennsylvania, Mr. McDade.

Mr. **McDade**. Thank you very much, Mr. Chairman.

I want to welcome all of you before the committee.

Admiral, I want to tell you that a couple of weeks ago several members of this subcommittee went out on a Trident submarine as it was doing its shakedown off the coast of Florida, and I met the kind of young people that you are talking about who are running those submarines, youngsters taking care of the reactor, the entire ship, and it was terribly impressive to all of us. It was a day that we will long remember.

Admiral CARLSON. They all appreciate your coming out there, too.

Mr. McDADE. They are better men than I am. And we appreciated what they did.

I have met people all across the spectrum—we have met Marines and soldiers and airmen and the lot—and we are very proud of them.

General Elton, your comment on page 3 of your statement, you say in the civilian component we project a decrease of about 2,000 as a result of reduced strength levels in depot maintenance and supply operations.

Are the operations in the maintenance depots going down? Is the work shriveling?

General ELTON. In this particular case, we are trying to construct very carefully a program to reduce personnel levels without reducing the permanent force, but only those that are temporarily hired.

Mr. McDADE. These are temporaries?

General ELTON. A great majority of them will be temporaries, and we are going to try using some overtime incentives and a very small reduction in the permanent staff. With those reduced, hopefully we will be able to transition to other needed jobs working for the Army. But, primarily, it is temporaries.

Mr. McDADE. Is the depot maintenance workload underfunded in fiscal year 1987?

General ELTON. That, I don't know.

Mr. McDADE. We have had testimony earlier where you could make the conclusion that there was about a 5 percent understatement in the workload. I don't know whether that is true or not, but if you are not prepared to answer it now I would like you to inform the committee staff and furnish a full statement for the record.

General ELTON. All right, sir.

[The information follows:]

Yes, the depot maintenance is underfunded in fiscal year 1987 by 5.5% or $93 million prior to the Gramm-Rudman decrement. The fiscal year 1986 Gramm-Rudman decrement will create an additional $104 million unfinanced requirement that will be carried forward into fiscal year 1987; so in fiscal year 1987, there will be $197 million or 11.5% underfinancing in the Depot Materiel Maintenance Program.

Mr. McDADE. What kind of services are drying up in depots that you are talking about?

General ELTON. That, I am not precisely aware of.

Mr. McDADE. We had Secretary Marsh, and Secretary Ambrose, telling us that they are shifting work into the depots; that they are doing more, more cost-effectively, and this seems to be at variance. It sounds to me like there is a degree of difference here. So if you are going to amplify that for the record, I would like you to do it thoroughly and notify the staff of the committee as to exactly what you have in mind.

[The information follows:]

The depots' workload will be adjusted to meet increasing requirements within the need to control personnel strength. The work will be accomplished by increased emphasis on depot overtime, productivity, and contracting. Where it is deemed in the best interest of the Army, consideration is being given to transferring some contractor performed work to the depots when the contractors' open orders expire.

PILOT SHORTAGES

Mr. McDADE. We have recently heard that the Air Force, as well as the Navy, are losing a lot of experienced pilots and at an increasing rate. The Air Force retention rate for pilots, as we understand, is at its lowest level in the last four years. We understand that a lot of that is because the young men are transferring over to the commercial side of the house.

Is that accurate?

General SHAUD. What we have right now is a cumulative continuation rate in the Air Force that is just about 59 percent. Now, what that means is that if you look at the six-to-eleven year-of-service group and assume that the year-of-service-six pilots will behave over the next five years the same as their predecessors did this past year, we would only expect about 59 percent of those year-of-service-six pilots to stay in the Air Force through eleven years of service—the product of multiplying the retention rate of each of these years of service (i.e. .92 x .89 x . . . .). And what we are retaining now is about 92 percent of the total six-to-eleven year-of-service group. But if we look at that year-of-service-six group in terms of what percent will be with us in five years if the pattern continues, it comes out to about 59 percent.

You are absolutely right when you say that it is lower than it was back in 1983. It was some 78 percent then, and now it is down to 59 percent.

We are busy analyzing all this, and in the Air Force looking at two sets of factors. One set, we call pull factors; the other, push factors.

The pull factors are those external to the service that you don't have much control over. What we have seen with regard to commercial airline hiring is that it has been relatively the same over the last few years, so it is hard to attribute a sudden fall in retention because of a sudden growth in airline hiring. It has been there.

So what we think we have to do is work those things we would call push factors and make sure when we speak to those entitlements and those things that we do for our folks that help provide family stability, provide leadership, that we do our level best to minimize pushing the pilot out.

Back in 1979, that cumulative continuation rate was down around 26 percent. Now that is way too low. As I mentioned, we are now around 59 percent. It is time to pay attention, and our commanders are doing that.

Admiral CARLSON. We have two factors that we have concluded impact on our pilot retention, which is now forecasted this year to be 48 percent. We need 60 percent retention to meet the fleet seats that we have.

The draw of the commercial airlines has a big impact, but the major impact is family separation. We ask these young pilots to go to sea on our aircraft carriers, to deploy for periods of six to eight months, be away from home; in some cases, be at sea for over 100 days; launch and recover those aircraft on a pitching aircraft deck at night. And for that, we don't pay them a great deal of money compared to what they will earn in the civilian side.

They also recognize the challenge of what they are doing, and a lot of them like that. The unmarried officers like that. The wife, however, says she would rather have her husband at home. It is easier to land on a 12,000-foot runway than on a 900-foot pitching deck.

We are attacking that factor by reducing operational tempo. If they are deployed six months, we want them home a year. And we are going to do that. So that is one factor why our retention is going down.

A very important aspect is money. The Aviation Officer Continuation Pay is very important to us. We are asking for an increase in that program that we think will help us turn the corner.

Mr. McDade. What are your projections for fiscal year 1987 with respect to the retention rates?

General Shaud. Our projection shows a one percentage point decline. We hopefully are leveling off. We watch this monthly.

Admiral Carlson. We watch it very closely, but I don't think we can accurately forecast the 1987 percentages because we are relying so heavily on incentive pays. The action of this committee will impact in no small measure on the percentage of retention in 1987.

Mr. McDade. Part of the problem is a pilot training pipeline, to have enough youngsters come along to fill that out.

How are you handling that problem, making sure you have people trained to come onboard?

General Shaud. In the ROTC, Air Force Academy, OTS, these sources that produce people that want to fly airplanes, we still have more candidates than we have seats for everybody. So, we are in a very healthy situation there.

Admiral Carlson. We have plenty of people who want to come to fly. It is the second-term pilots that we need, the more experienced individuals. The training impacts on what they do because we need to return some of them back into the training pipeline to train the new aviators coming into the fleet.

They don't like to do that. They would rather do something they see as more challenging. It is a two-edged sword. If we keep them flying in the more up-front, high-performance aircraft they want to fly in, then we don't have enough people to train the new pilots coming in.

We are taking newly designated pilots, the top of the corps as they graduate, and plowing them back in as an elementary flight instructors to get relief there. The answer is targeting Aviation Officers' Continuation Pay and luring that officer into a second tour fleet seat.

Mr. McDade. What is the percentage of pilots that the commercials get from the Air Force, Navy, et cetera? Do you have any idea?

General **Shaud**. I don't have a number to give you, but it is somewhat less—let me say it this way: It is somewhat less than it had been in the past. There are initiatives in places like the university. They are, in fact, training pilots in larger numbers, if you will, to go to the commercial airlines, because their appetite is more than the Services are producing.

Mr. **McDade**. Did you have a figure previously to this year?

General **Shaud**. I could provide that for the record.

[The information follows:]

The percentage of commercial airline pilot new hires with a military background has historically been very high. Airline representatives cite superior training, experience, and discipline as key factors. After two consecutive years of record pilot hiring, the pool of qualified applicants is shrinking, which has increased demand for military pilots.

Total airline pilot hiring has increased dramtically over the last three years. The number of pilots hired with military experience is at a record high. However, as a percentage of the total hires, military experience (35%) is now the lowest ever.

Approximately one third of new pilots hired have a military background. Of these, two thirds have been Air Force pilots and the majority of the remainder are Navy pilots. Other services represent a very small portion of the hiring total. To meet growing pilot requirements, some airlines have had to relax hiring standards and others have turned to universities with aeronautical programs as a potential source for new pilots. Several major carriers are recruiting and hiring retired military pilots, an historical first. Demand for the military aviator is high, the supply is limited.

Admiral **Carlson**. The military provides about half of the appetite in the civilian sector. They would like more. They get testy with us. There is an interesting mental set, too, that people who have gone to the civilian side tell us that they are home, they only fly 12 days a month. They make more money, but they have become a part of the labor force. When they are officers in the military, they are part of management, as opposed to part of labor, so there is a leadership role there that they don't get to experience.

We have letters back from Navy pilots on the civilian side that we have used to show to the youngsters who say, "I want to fly for Rusty Tail Airlines." We do paint the other side of the picture. But half of the new pilot hires outside are from the military.

Mr. **McDade**. That sure is a lot of people.

Mr. **Chappell** [presiding]. Mr. Hefner.

TOBACCO SALES IN COMMISSARIES

Mr. **Hefner**. Thank you, Mr. Chairman.

We have been discussing quality of life at our MILCON hearings. The committee recently learned that the DOD will order that tobacco sales not be subsidized in any way by the military, and pulled off the commissary shelves. The Department cites health concerns for this change in policy.

We would like the personnel chiefs to comment on this new policy and explain to me what the intent is, and what monies were used to subsidize the cigarettes in the commissaries.

General **Chavarrie**. Right now I do not believe we can say we have changed policy regarding the sale of cigarettes in commissaries or other resale activities. Over the past month or so, we have conducted a study chaired in OSD. All Services have participated in it. This study will have some options for the Secretary of Defense to decide upon. He has not decided yet. I dare say, probably this week he will make that decision.

The study is done, but there has not been a policy change.

Nobody disagrees on the health issue associated with cigarette use. We all agree that cigarette smoking is bad for your health. So that is not the question.

One side of the story is that we subsidize tobacco in the commissaries. That is only indirectly true.

Mr. **Hefner**. Very indirectly true.

General **Chavarrie**. Yes, sir.

The subsidy DOD gets supports the whole commissary system. The approximately $650 million in commissary appropriations is to ship the goods overseas and to operate the commissaries. By Congressional direction, all the goods in commissaries are sold at cost with a 5 percent surcharge, so there is no direct subsidy of any item; and that 5 percent surcharge, along with the appropriations, is what they build and equip commissaries with and keep them modernized.

So, tobacco isn't really subsidized in the true sense of a subsidy.

On the other side of the coin are some who say, keep cigarettes in. I think it would be perceived by a good many of the folks, since a lot of people smoke—whether it is good for your health or not—that it deprives one of a choice if tobacco is removed. It is a perception that we may be taking something away.

These are the things that we don't like. This is where the quality of life issue is. But, along with that, and doing something to the retirement system, these are things the perception of which is negative. I think that is the other side of the coin on tobacco.

How it is going to come down, I don't know. The Secretary will be making judgments about the health issue, and making judgments about the perception. If we take it out of the commissaries, will we keep it in the Exchange system, or will we take it out?

There isn't any question that for the folks that smoke it will be an increase in cost, because whether they buy it in the Exchange or outside, they aren't going to get the kind of savings they get in the commissary.

The Secretary of Defense will make the decision probably soon on what it will be. But health is not an issue. It is a given.

Mr. **Hefner**. Anybody else?

Admiral **Carlson**. It is a departmental decision, and we would comply with the directions of the Secretary.

General **Cheatham**. The Marine Corps has never put cigarettes in our commissaries. We have always kept them in the Exchange, because money from the Exchange goes to support morale, welfare and recreation activities.

General **Elton**. We don't encourage smoking, but we agree with General Chavarrie and with the Secretary of Defense that the position should be that this is a restriction, a micromanagement type of restriction, on the freedom of individuals and on the pricing of specific items. That ought to be under the purview of the commissary system and not specifically singled out. We look at that as a gradual erosion of those privileges.

General **Shaud**. DOD policy is being formed. The first point is, is this in fact a health issue? As you manipulate the cigarettes in or out of the commissary or raise or lower the prices, does it have anything to do with smoking habits? This is what the study is going to show.

The second point, is it an infringement on our people, and with a lot of tugs at the compensation package we are afraid that the view might be that this is another tug.

Mr. **Hefner**. Won't this move be seen as another lost benefit to the Services?

General **Chavarrie**. Most definitely. Any policy which would artificially increase prices of any item sold in military commissaries or prohibit the sale of a current item authorized for sale would be perceived by the military community as a lost benefit. While in reality the true benefit is the income effect produced from the average 25% aggregate savings produced from military commissaries, the savings on individual items produce this aggregate effect. Applying this policy on an item such as tobacco which is used by approximately 50% of authorized patrons would indeed produce a large perception of lost benefit.

Mr. **Hefner**. Will this require more appropriated fund support for nonappropriated fund activities to offset the lost revenue from cigarette sales? What is the anticipated lost revenue?

General **Chavarrie**. This was one of the purposes of the study directed to measure the economic effects on the military resale system. Our analysis showed that if tobacco products were to be prohibited from sale in military commissaries, there would be an aggregate loss of surcharge revenues estimated at $30.3M annually. Because these anticipated revenues are used in projecting future budget needs and are actually pre-obligated in accordance with Title 10, USC, 2685 for commissary construction, this $30.3M annual lost would have to be made up either through a transfer of "profits" from tobacco sales in other military resale activities or from other sources such as appropriations for at least a three year period.

[Additional information follows:]

Subsequent to this hearing, on 10 March 1986, it should be noted that the Secretary of Defense issued a policy decision and forwarded the DOD Report on Smoking and Health in the Military. The policy decision was to direct an intense anti-smoking campaign at all levels of all Services and that it become a major responsibility of all commanders and commanding officers. The effectiveness of this program will be reviewed after a reasonable period of time to measure the progress prior to considering changes to present policies of tobacco sales in commissaries and post exchanges.

Mr. **Hefner**. There has been this study on the effects of cigarettes on our fighting men—and it seems to me the Department of Defense is charged with seeing how able they are, how dedicated they are, how good a soldier or sailor, Marine, they are, how well they perform their duties.

I wonder if there has been a study along the same lines as this one concerning alcohol? Do we sell alcoholic beverages in the commissary?

General **Chavarrie**. We do not. Alcohol is sold in class VI stores. All of the profits of Class VI go into the Morale, Welfare and Recreation funds. Half the profits of the Exchange systems also go into morale, welfare, recreation. These funds build bowling alleys, libraries, and that kind of thing.

I have been in my present job a little more than two years, and I don't know that there is a study that has been done on alcohol like we did on tobacco.

Mr. **Hefner**. Does alcohol abuse cause you any problems in the Services?

General **Chavarrie**. I can't speak directly, but I know that the Services have tremendous education programs for alcohol abuse, not only alcohol abuse but alcohol abuse prevention, a very structured program.

Admiral **Carlson**. Yes, sir, we have several strong programs dealing with alternatives to alcohol. Of course, we in the Navy are cursed, or blessed, however you want to look at it, by long periods at sea in a monk-like atmosphere. So, whenever the sailor gets ashore, he may, whether he intends to or not, use alcohol to excess. Some act that way because they know they think they are expected to act that way. But they don't like alcohol.

We have special problems, and we try very hard to find things for the sailors to do when they get ashore rather than drink.

Mr. **Hefner**. Could you name a couple? I understand you have some films that you show from time to time.

Admiral **Carlson**. Travel logs. But before port visits we also do a great deal more, including arranging recreational activities, tours, sporting events, and community assistance projects.

General **Elton**. The Army has a major program and has had for some time. It has been more successful in recent years than it was in the past with regard to deglamorization of alcohol, reduction of the number of functions that are held with reduced price alcohol. The hard policy is there will be no drinking on duty hours and no sales of alcoholic beverages on the post during duty hours, things which have been done in the past but have not been rigidly enforced, but now are, and that is having a marked impact on consumption of alcohol throughout the Army. As we have surveyed the young men and women, they tell us to keep it up.

General **Shaud**. In the Air Force, we have social action programs focusing on drug abuse and alcohol abuse. We are doing our level best to deglamorize alcohol.

Mr. **Hefner**. I have no further questions, Mr. Chairman.

Mr. **Chappell**. What is the thrust of your study on cigarettes? The health aspect is a given. What else is there to study if you are going to remove them from the commissary or from the Exchanges?

You have got a 5 percent surcharge. It is beneficial to the services and the morale of the men. If health is not the consideration, then why do you even have to have a study to tell you—it makes more sense you will have more money going back to the benefit of the serviceman.

General **Chavarrie**. When I said health was a given, what I meant was that the health issue is one that everybody understands, and so understands it in the sense that this is bad for your health.

Mr. **Chappell**. But do you suppose that this is going to keep them from smoking just because they can't buy it at the Exchange?

General **Chavarrie**. Part of the study was involved in discussing the elasticity of tobacco. As you know, it is a complicated business. Let's ask what is the elasticity of electricity? Well, it is very inelastic because you have to pay for it no matter what you are charged for it.

Cigarettes are another matter. We have many econometric studies that we looked at in doing our study, and found that in one study cigarette tobacco is relatively inelastic, and we said what does that mean? The study said that for every 1 percent increase in price, you had a four-tenths of 1 percent decrease in consumption.

We are saying there isn't any question that if you increase the price of tobacco there is going to be less consumption.

What is in question is how much less; and number two, where are these men and women in the military going to get it? They can go to the Exchange system, which has a 15 to 18 percent savings. That is less savings than the commissary. Or they can go outside where the savings are zero.

I think the answer to your rhetorical question is, I am not sure. I don't think it will reduce smoking very much, but there are a lot of people who say that it will.

Mr. **Chappell**. Mr. Miller.

ENLISTMENT AND SELECTIVE REENLISTMENT BONUSES

Mr. **Miller**. Thank you, Mr. Chairman.

General, in your statement, on page 4, you mention the enlistment and selective reenlistment bonus programs, and the authorities for these bonuses are Section 308 and 308(a) of Title 37 U.S. Code.

You say you are attempting to make those sections permanent?

General **Chavarrie**. Yes, sir.

Mr. **Miller**. Just what does that amount to? That is a 50 percent lump sum, as I recall, and then payments over a number of months thereafter.

Would you give us a rundown?

General **Chavarrie**. Enlistment bonuses are authorized when you have a very high quality person that you want, particularly in a skill that has a shortage. Enlistment bonuses are an incentive to get somebody who is good where you need him.

The reenlistment bonus is a form of compensation. This is for somebody that has experience; he is already trained; he is now a professional; he has a career; he has a family that knows something about the military. These folks, along about the sixth or seventh year to the twelfth year, are the core of our professional enlisted force, the teachers, the leaders, all the way along. So these are the ones we really want.

How do you keep this person in the military in light of good conditions outside and in light of whatever negative perceptions they might have? We do it by a selective reenlistment bonus. Each of the military departments has considerable flexibility to decide the amounts.

I think last year's legislation told us what we would do in terms of the selective reenlistment bonuses. We would like to give bonuses to people in a lump sum. It is important to give somebody a big wad of money rather than a little bit of money over a period of months, because it has more impact in one lump sum.

We think it is important to say to this person to sign on for another four years, here is a sum of money. The perception is it makes a big difference.

Last year, the legislation said we can give up to 75 percent in a lump sum. Prior to that, it was 50 percent.

Mr. **MILLER**. What have you found to be the effect of that change allowing an additional 25 percent?

General **CHAVARRIE**. It was changed last year, but the effective date is October 1, 1986. It is too early to tell. However, we think it is going to have a big effect, because in the past in surveys we asked people how they would like to have bonuses, and it is nearly unanimous that they would like a lump sum.

They want to put a down payment on a new car or a down payment on a house or a trailer.

Mr. **MILLER**. That is hard-nosed business. They can also invest it and collect the interest.

General **CHAVARRIE**. Yes, sir. They are not dummies. They understand these things. That is how good the selective reenlistment bonus is.

In 1986, the total amount in the DOD was $599 million. In 1987, we are asking for, in new payments, a total of $514 million. So, the total for 1987 will go to $803 million from $599 million. That difference is really paying the increase from 50 percent to 75 percent lump sum.

Essentially, the program would remain the same. The difference is we are now able to give him 75 percent of that money instead of 50.

Mr. **MILLER**. $803 million?

General **CHAVARRIE**. $802,703,000, sir.

Mr. **MILLER**. How is that divided among the services? Could you give us a breakdown of that?

General **ELTON**. For 1987, the Army's share was $180,445,000.

General **SHAUD**. Air Force, $127 million for 1987.

Admiral **CARLSON**. $239 million for the Navy, sir, in new payments for 1987, with $79.8 million of that to accommodate a shift to 75 percent lump sum payment. We are particularly sensitive and perhaps use the SRB more than the other services because of some of the skills that our people have. Our nuclear reactor operators, for instance, are in intense demand in the civilian sector, and they will steal them from us if we don't pay these individuals a comparable wage to get them to the point in time they can see a retirement window, because they can double and triple their current pay levels in the civilian community.

Mr. **MILLER**. We are not building civilian nuclear reactors like we did in the past, so they may not be stealing too many right now.

Now, there is a great reluctance on the part of utilities and those using nuclear reactors——

Admiral **CARLSON**. But we see no diminution of them looking for our people. The permanent nature of the SRB is very important because in the past it has been enacted only on an annual basis. So we find people with skills that we particularly need, electronic technicians, et cetera, as they approach the end of the fiscal year, they may miss their opportunity to reenlist for a bonus, because the authority lapses.

We have had cases where we know bonus authority is going to be enacted. We have asked this committee to give us appropriations to continue reenlistment bonuses. But until it gets enacted, we have had people doing strange things, living in their cars waiting to reenlist to get the SRB. The permanent nature of it means that the Congress authorizes us over more than a one-year span of time to pay selective reenlistment bonuses. And when we pay lump sum we save 5 to 9 percent in new payment costs.

Because it is cheaper, in a cruel way, to pay them up front than it is to pay them over time.

Mr. MILLER. Because of the administrative costs?

Admiral CARLSON. No, sir. It's because we can pay them a little less money if we pay them lump sum rather than paying over a period of time. They would rather take an envelope now than get it in anniversary payments every year for the next five years.

General CHEATHAM. It is about $127 million. My point is that the SRB is a key force management tool. There are Marines who enlist, serve honorably, and then leave active service. We don't mind losing them because we require a young force. But there are skilled technicians that we want to keep, and bonuses are one of the best management tools that we have to balance the force.

Mr. MILLER. For reenlistment payments, this determination has to be made at some level as to who will be offered the bonus.

At what level is that determination made?

Admiral CARLSON. That is at my level and up. We make the determination in terms of whom we are retaining. The people that we are not retaining are the individuals who either are in a particularly arduous sea-intensive rate, which is tough, dirty, crummy work, like boiler technicians and machinist mates working in the guts of the ship, or they are people who have a great employability in the civilian sector and are being lured away.

We track this on a monthly basis and retarget bonuses at least semi-annually. I liken it to having 12 rainbows and only 4 pots of gold. We are shifting the pots of gold around so that as people run for the end of the rainbow, there is always a pot for them to draw from. It works. And we desperately need it.

General CHAVARRIE. If we could get you the detailed numbers for the record. Sometimes they may be off by a little bit. So, if it is all right with you——

Mr. MILLER. That will be fine. I can understand that. And if you would furnish the correct numbers.

[The information follows:]

SELECTIVE REENLISTMENT BONUS PROGRAM—FISCAL YEAR 1987

	Army	Navy	USMC	USAF	Total
Number of payments:					
Initial	14,075	24,760	9,760	20,271	68,866
Anniversary	55,650	80,565	33,077	79,111	248,403
Total payments	69,725	105,325	42,837	99,382	317,269

	Army	Navy	USMC	USAF	Total
Dollar amount (thousands):					
Initial	$116,039	$239,287	$81,652	$77,645	$514,623
Anniversary	$64,406	$128,901	$45,244	$49,529	$288,080
Total cost	$180,445	$368,188	$126,896	$127,174	$802,703

Mr. MILLER. One other thing, General. You had mentioned about officer shortages on page 5 of your statement, and I guess what I am interested in again is where do we stand? How many chiefs, how many Indians, in the various Services? Do you have those figures for each of the Services? You could furnish that for the record, if you would, please: How many officers, how many enlisted, percentage.

[The information follows:]

The assigned strengths for the Military Services as of 30 September 1985 were as follows:

SUMMARY OF MILITARY PERSONNEL STRENGTH

	Officers	Enlisted	Cadets
Army	109,687	666,557	4,543
Navy	70,657	495,444	4,604
USMC	20,175	177,850	
USAF	108,400	488,603	4,512
DoD total	308,919	1,828,454	13,659

Although we carefully monitor all occupational specialties in both the officer and enlisted forces, our immediate concerns focus on the shortages in the nuclear community and pilots in the Navy. The shortages in the nuclear power specialties reached a peak of 22% in fiscal year 1986 in the grades of Lieutenant Commander through Captain. However, the enactment of the enhancements to the Nuclear Officer Incentive Pay in the Fiscal Year 1986 Authorization Act is expected to reduce the shortfall to 11% by fiscal year 1990. The shortage in the pilot community of the Navy is concentrated at grades Lieutenant and Lieutenant Commander. The current shortage of about 1,100 pilots represents approximately 15% of the authorized strength at those grades. We are confident that the shortages in these areas will be improved with the support of Congress for the special and incentive pays that we have requested for fiscal year 1987.

EUROPEAN TROOP STRENGTH

Mr. MILLER. You also spoke of having a European troop strength of 326,414. The Secretary of Defense was allowed to have one-half of 1 percent flexibility on that. And I am wondering if that flexibility is being used at the present time.

General CHAVARRIE. It is, yes, sir.

[Additional information follows:]

The need for such flexibility was demonstrated in 1984 when the Department exceeded the European troop strength ceiling by a small number. The act (P.L. 99-145) authorizing the flexibility was signed into law on November 8, 1985. We will be able to use the flexibility, if necessary, in fiscal year 1986 and subsequent years.

Mr. MILLER. It would take it up to maybe another thousand. You say it is being used; we are up a little above 327,000, if that is the case.

General CHAVARRIE. Yes, it is.

Mr. MILLER. Mr. Chairman, I have used my time. Thank you.

Mr. CHAPPELL. Mr. Livingston.

Mr. LIVINGSTON. No questions at this time, Mr. Chairman.

Mr. CHAPPELL. There have been many discussions about the end strengths in Europe. I notice in your statement that you believe that the Congress has gone too far in setting restrictions on the manpower in Europe, restricted to 326,000 people.

Will you comment on that further and tell us why you think it is counterproductive?

General CHAVARRIE. I think in the first instance—and it sounds like a cliche, but it isn't—it really reduces flexibility. One example: We are putting the GLCM into Europe. It requires additional people who are not now in Europe, because it is a new weapon system.

Mr. CHAPPELL. How many people in that system?

General SHAUD. This year, the growth between fiscal year 1986 and 1987 was 991, sir. That is additional people.

General CHAVARRIE. So here is a system that has been introduced into Europe. When there is a ceiling that is hard and fast without any flexibility, something has to give. So that you ask the commander there, what would you like to give up? This is a commander who is facing a threat to fight a war if it begins day after tomorrow. He says, "I want the GLCM because it is a good deterrent. I can't give up support because I don't have quite enough. So what do I do? Send airplanes home, companies home, ships home?"

He says, "I don't want to do that," so he would probably opt to send some troops home, because theoretically you could get them back fairly quickly, or airplanes.

So, there is no free lunch. If the GLCM goes in, something has to come out.

What was done in the last instance was to reduce conventional forces. So, you have increased the GLCM and reduced conventional forces.

You say, is that good judgment? It depends on the risk you want to take.

It's necessary to be flexible. Furthermore, I am not sure that by saying to the Europeans we are going to reduce or keep an end strength ceiling that you are coercing them into increased burden-sharing.

Mr. CHAPPELL. Have they increased their burden-sharing in the last three or four years?

General CHAVARRIE. I am not sure what the different countries in the NATO Alliance have done in terms of added people.

Mr. CHAPPELL. But it is true that they have, haven't they?

General CHAVARRIE. They have.

Mr. CHAPPELL. To what do you attribute the reason for their doing a better job—that of assuming more responsibility?

General CHAVARRIE. I am not sure if the increases fix the balance or are to the extent that we want it. I think they are reacting to their goal in the Alliance to increase offense spending by 3 percent. Hopefully, it is that. I don't know what the total reason is.

Mr. CHAPPELL. Hopefully, it is what?

General CHAVARRIE. Hopefully, it is more than just we are doing something because the U.S. is pushing us to do it. Hopefully, it is more enlightened. As the threat increases, they increase their commitments as members of the alliance, hopefully.

I was the J-5 in Europe for three years, and I know we tried to get increases. We think that if we push them into doing something that they automatically are going to do it.

I hate to elaborate, but if I might, just an anecdote. You have to realize here is a country—Germany, for example, the size of Oregon—in which there are over 240,000 American troops; but there are also French troops, British troops, Dutch troops, Belgian troops—all on German soil.

We exercise a couple of times a year and we tear up their roads, tear up their countryside. We pay them for it, of course. But foreigners are all over the place in Europe. They don't charge us rent for their fields; only if we tear them up.

So, there are a lot of intangibles, and not necessarily intangibles, in terms of rent, which we are not being charged for.

Mr. **CHAPPELL**. Are you giving us reasons why we should not reduce them?

General **CHAVARRIE**. Yes, sir. I am giving you reasons why I don't think that putting a ceiling will coerce the NATO Alliance into doing more. I don't think it is necessary. I think it is counterproductive to put a ceiling. It reduces our flexibility, if the objective of that ceiling is to get them to do more. I think they do more for other reasons.

Mr. **CHAPPELL**. Are you suggesting removal of the ceiling altogether?

General **CHAVARRIE**. I think we would like to remove the ceiling altogether, and let us react to the threat, let us react to the fiscal constraints, and let us react to the realities of the day.

Mr. **CHAPPELL**. Do you have any figures on how many people we have increased in the tactical and strategic side, or particularly the strategic side, which came out of the conventional side over the last year?

General **CHAVARRIE**. You mean in Europe?

Mr. **CHAPPELL**. Yes, sir.

General **CHAVARRIE**. No, sir. I do not.

Mr. **CHAPPELL**. How do we know how much of a problem we have caused by what you have been stating?

General **ELTON**. One of the bill payers for the introduction of GLCM was an air defense battalion from the Army. That was brought home early so that the GLCM could get in.

Mr. **CHAPPELL**. What numbers are we talking about? What are the changes over the last year or two?

General **CHAVARRIE**. I would like to get those for you because the drill we have been going through to meet the ceiling has resulted in specific reductions from Europe.

Mr. **CHAPPELL**. I am trying to help you build a record so we know what you wish to do here. Give us some numbers and give us specifics that you have.

General **ELTON**. The Army was given a ceiling. In 1985 we had a planned structure of 222,000. That was reduced, and the ceiling stood at 217.1. In 1986, that shrank to 216.8.

Mr. **CHAPPELL**. You are talking about the shrinkage of all forces, aren't you?

General **Elton**. Army forces in Europe.

Mr. **Chappell**. But you are not talking about how many you lost out of the conventional forces to pick up responsibilities elsewhere. That is what I think General Chavarrie was saying.

What about the Air Force?

General **Shaud**. We can array the puts and takes and we could certainly furnish that for the record.

Our total increased military in 1985–1986 was some 7,046. Our take was about 6,077. That came out of things like conversions, tactical air control systems, intelligence, undermanning, et cetera. In other words, it is an array of programs that paid that bill.

Additionally, the INF bill, of course, was shared by the other services.

Mr. **Chappell**. Do all of you concur with the point that is made that it is a mistake to put a ceiling on forces in Europe?

General **Shaud**. Yes.

Mr. **Chappell**. How is it affecting the Navy? How many have you taken from conventional, if any?

Admiral **Carlson**. We have about 14,500 people in the European theater. It is a very small number, largely in fleet support and reinforcement/resupply depots to assist reinforcement and resupply in Europe, which will take place during time of combat.

Mr. **Chappell**. I assume the Marines are pretty much in the same boat?

General **Cheatham**. A lot smaller than that. Ours are mostly security forces.

Mr. **Chappell**. Why don't you people put together statistics and let us look at them and amplify for the record the positions that you take.

[The information follows:]

The impact has been adverse. When a European Troop Strength (ETS) ceiling was first imposed in FY 1983, the initial effect was to encourage unit undermanning in order to ensure that European end strengths did not exceed the ceiling. This had an adverse impact on unit readiness, including the readiness of mechanized infantry battalions and armored cavalry squadrons. In subsequent years, the ceiling forced us to make significant reductions in our planned increases in European troop strengths. The total reduction in our planned end strengths since 1983 is approximately 25,000 (from 351,059 planned for FY 1987 prior to the imposition of the ceiling to the 326,414 planned for FY 1987 currently). Such reductions adversely affect efforts to enhance our combat capabilities. That is, while we are proceeding with the most critical improvements, other improvements that are clearly warranted by the increased Warsaw Pact threat could not be pursued because of the ETS ceiling. For FY 1987, the major actions to comply with the ceiling are:

(Deleted).

Deferring a USCINCEUR request for forward deployment of a permanent C–130 squardron to Europe,

Returning a mobile construction battalion to CONUS, and

Decrementing improved manning of operational units.

In earlier years, we have also been forced at least in part by the ceiling to withdraw units from Europe to offset critical growth. Of course, factors aside from the ceiling—e.g., reorganization, modernization—influenced these withdrawals. But the ceiling in our view had a significant impact on the following:

Reduction of Air Force tactical Air Control System by six units,

Return of two Air Force OV–10 squadrons to CONUS.

In each case, the withdrawals left at least a temporary shortfall that could not be fully met by other units. The result was a decrease in our combat capabilities in the affected areas.

Mr. **Chappell**. Is there any place for the reserves to be employed in the European theater, in the sense of relieving some regulars?

General **Chavarrie**. In the sense of staying there for extended periods of time, I think by and large that would be pretty tough.

Mr. **Chappell**. You think it is unworkable. That is what you are saying?

General **Chavarrie**. Yes, sir.

General **Elton**. I would like to say in that regard, reserve units deploy on REFORGER exercises frequently, but that is a two- to three-week stint for them, and then they are brought back home.

Mr. **Miller**. Mr. Chairman, would you yield on that item?

Mr. **Chappell**. Mr. Miller.

Mr. **Miller**. It seems to me that we have ceilings on nearly all agencies and departments; and if we do not have ceilings, we find that very quickly there may be double employment in one agency. So that was the purpose of putting the ceiling on. And it appears to me that if the ceiling would be removed I can visualize us doubling our manpower and personnel in Europe rather hurriedly.

General **Chavarrie**. Certainly that is a judgment. I don't think we would double the number of people in Europe. I think, however, it is a function of the judgment of the commanders to say here is the force that should meet the threat in Europe, and there are going to be risks forever. I doubt if we would double the number, though. I just don't know what the exact number would be.

Mr. **Miller**. Perhaps we wouldn't double. I am not sold on removing the cap at the present time. I guess you are going to have to put up a better argument.

General **Chavarrie**. We will provide statistics.

General **Shaud**. Part of the discipline is provided by whether you sign up for a program like INF, ground-launched cruise missile, that that program has N number of manpower attached to it, and that is the kind of discipline we are trying to drive to, rather than having a manpower ceiling and trying to work under that, trying to attach manpower numbers to a specific weapon system that we have assigned to the European theater.

Mr. **Miller**. Then we would continually have new weapon systems and additional personnel to operate them, and soon we would be well above that 326,000. There would be no encouragement to remove something that wasn't on high priority.

General **Shaud**. There could be that encouragement, sir. But you make a good point.

Mr. **Dicks**. Mr. Chairman, I have a couple of questions for the record.

Mr. **Chappell**. They will be placed in the record at this point.

[**Clerk's note**.—Questions submitted by Mr. Dicks and the answers thereto follows:]

SENIOR EXECUTIVE SERVICE ROTATION

Question. The Secretary of the Navy has issued a directive mandating that all members of the Senior Executive Service be rotated to an entirely different assignment not less than once every five years. It also states, that effective immediately, all SES members having five years or more in the same position must be proposed for reassignment by October 15, 1985.

What is the rationale behind this directive?

Answer. The rationale behind this directive is to foster an exchange of innovative ideas and to provide growth opportunities for SES members to ensure maximum utilization of key executive resources.

Question. Is it being applied government-wide? To all the services?

Answer. It is not being applied government-wide or to the other services.

Question. Has there been consultation with the Congress on this issue?

Answer. There has been some discussion of this during Congressional hearings.

Question. The directive states that is order to stay on an assignment beyond five years they will have to get the personal recommendation of the CNO, CMC or the Under Secretary of the Navy and approval of the Secretary. How likely is it that anyone could get such recommendation and approval?

Answer. To date the Secretary of the Navy has approved eleven requests for SES members to remain in their current positions beyond five years.

Question. What consideration was given to the disruption that such a massive reassignment could provide on program continuity and effective execution?

Answer. There have been no massive reassignments. Actual reassignments are being made on a case-by-case basis in keeping with the philosophy of providing maximum benefits to the Department of the Navy and SES members.

CIVILIAN PERSONNEL CEILINGS

Question. General Chavarrie, on page 18 of your prepared statement you discuss operations without civilian personnel ceilings.

You note that the Assistant Secretary of Defense (Force Management and Personnel) has issued guidance to the Services and Defense Agencies on operations without civilian ceilings that stresses prudent and efficient management, including an emphasis on labor saving initiatives. Could you describe some of the specific elements of this guidance that help insure these objectives are met?

Answer. The ASD(MI&L) instructed the DoD Components that during FY 1985 when civilian ceilings were absent they should continue to use efficiency reviews, the commercial activities program, and productivity enhancing capital investments to eliminate unnecessary manpower requirements. They were told not to staff for peak workloads. If more economical, Components were to use overtime and temporary employees to accommodate workload surges. All Components were to maintain accurate work force employment plans which match resources to workload.

Question. You provided a report on February 1 of this year on your FY 1985 experiences. Could you summarize that report?

Answer. During FY 1985, Defense program managers added and retained 3.8 percent more civilian employees than projected. Due to savings achieved by hiring temporary workers and to other factors, expenditures for civilian manpower were only 2.5 percent above budgeted levels. Most of the $800 million in increased civilian costs came from shifting in-house work that would have otherwise been done by contractors. This was done to reduce costs or because of delays in awarding contracts or contractor's defaults.

The freedom to match employment to workload led to a wide range of benefits in the following areas:

(1) increased output,
(2) lower costs, and
(3) improved quality.

The Department restated its position that it can best do its jobs without statutory end strength constraints on employment. The report also discussed several management issues raised by Department-wide operations without ceilings.

Question. You note that your FY 1987 request anticipates continued operation without ceilings, in accordance with Congressional direction. Has this proved a benefit in your personnel planning efforts?

Answer. Yes, a major benefit. Formulating the FY 1987 President's budget without arbitrary civilian end strength controls enables the Department to balance workload requirements within available resources. The civilian employment plan in FY 1987 reflects this balance of programmed workload to the in-house work force vs contracting the workload out.

[CLERK'S NOTE.—End of questions submitted by Mr. Dicks.]

Mr. CHAPPELL. Mr. Wilson also has a question he would like answered for the record.

[CLERK'S NOTE.—The question submitted by Mr. Wilson and the answer thereto follows:]

EDUCATIONAL ASSISTANCE PROGRAMS

Question. What does the new GI Bill do for the Army?

General ELTON. The Army has used educational assistance incentives since FY 79 as a major attractor of quality accessions into the Army. There have been a wealth of studies both in and out of DOD that date from 1970. The latest of these, a 1985 Rand study, "Enlistment Decisions of Young Men", specifically focuses on the impact of educational assistance. These studies strongly support the concept that educational assistance is a prime motivator for youth, especially quality youth to enlist in the military. The Army must have and use educational incentive enhancements (Army College Fund or "Kickers") to make the Army competitive in the recruiting market place, especially with the dwindling pool of potential recruits. At a time when we are placing more and more reliance on the reserve components, elimination of such a vital recruiting and retention tool, together with the uncertainty of what program to offer, may dramtically impact on our capability to continue recruiting quality youth into the reserve components. In summary, educational assistance incentives provide for market expansion, to attract and distribute quality accessions and help make the Total Army competitive in the market place with the other military services.

[CLERK'S NOTE—End of questions submitted by Mr. Wilson.]

Mr. CHAPPELL. Gentlemen, thank you very much.

The remaining questions that were not covered will be placed in the record at this point, and we would ask you to respond to them as quickly as you can.

[CLERK'S NOTE.—Questions submitted for the record and the answers thereto follow:]

CANCELLATION OF THE NEW GI BILL

Question. Since July 1, 1985, the Department of Defense and the Veterans Administration have been jointly funding and administering a three-year trial program of enhanced educational benefits—in the new GI Bill—to aid in recruiting military personnel. The fiscal year 1987 President's Budget proposes to end this test program on October 1, 1986 (rather than July 1, 1988 as in current law), and resume the Veterans' Educational Assistance Program (VEAP), which has been suspended during the new GI Bill test.

We have heard many good things about the tremendous recruiting and education potential of the new GI Bill and wonder why the Administration chose to eliminate this program? Was this a Department of Defense Initiative?

Answer. The Administration believes that the recruiting potential of the New GI Bill is no greater than the recruiting potential of the Veterans' Educational Assistance Program (VEAP) for bringing high quality individuals into the Armed Forces. This was an Administration initiative.

Question. What will the new VEAP Program look like? Will it be on an accrual basis?

Answer. VEAP will be reinstated in the same form it existed prior to July 1, 1985. It will be funded as an outlay for each fiscal year based on a two for one match with the Service member's contribution.

Question. What has been the utilization of the New GI Bill by members of each Service since July, 1985?

Answer.

ACTIVE COMPONENT (JULY 1, 1985–JANUARY 31, 1986)[1]

	Eligible	Participation	Rate (percent)
Army	64,530	44,029	68.2
(Army College Fund)		(26,061)	40.4
Navy	49,126	14,988	30.5
Air Force	27,754	10,799	38.9
Marines	19,041	9,919	52.1
DoD total	160,451	79,735	49.7

[1] Participation is defined as agreeing to contribute $100 per month for 12 months upon entry on active duty. Actual use of the benefit begins after honorable discharge. In-service use begins after 24 months on active duty.

Reserve components utilization rates as reported by the Veterans Administration through January 21, 1986.

Army National Guard	6,606
Army Reserve	2,034
Navy Reserve	827

Marine Corps Reserve	104
Air Guard	2,939
Air Force Reserve	910
DoD total	13,420
Coast Guard Reserve	62
Grand total	13,482

Question. Looking back on the changes that have taken place with educational benefits, first the GI Bill and then the Veterans Educational Assistance Program (VEAP), the new GI Bill and now the return to the VEAP. Isn't the Department concerned that this change will cause uncertainty in the military ranks?

Answer. Each educational benefits program is designed for the needs of the Department at the time. The Vietnam-Era GI Bill was designed as a readjustment measure while the basic VEAP combined with supplemental "kickers" provides educational assistance as a recruitment incentive for qualified individuals. We do not believe that the change from the New GI Bill to the VEAP will cause uncertainty among military members.

Question. This change from the VEAP to the new GI Bill and then back again to the VEAP seems to indicate that the Department is not committed to recruiting and educating high quality personnel. Isn't the Department concerned that, in fact, the message it is sending to individuals who might be contemplating the Service, is that it is not concerned with providing a stable educational benefit program?

Answer. The Department has demonstrated stability in the educational benefits area since January 1, 1977. Except for the time during which VEAP has been suspended for the New GI Bill program, we have had the same program as a consistent, reliable component of the total compensation package. The New GI Bill was implemented as a test program with provisions for returning to VEAP. We believe that the introduction of the test program has not reduced the Department's commitment to an education benefits program directed to recruiting high quality personnel.

RETIRED PAY

Question. The fiscal year 1986 DoD Authorization Bill directed the Department to submit legislation to achieve a $2.9 billion savings by changing the military retirement system. We understand the Department has submitted the appropriate legislation.

This Committee, along with the Senate, provided the Department the authority to transfer $2.9 billion from unobligated balances to cover any shortfalls you may experience in the retired pay accounts until the legislation is passed.

Have you transferred the identified unobligated balances to cover shortfalls in the retired pay accounts? If so, how much have you transferred?

Answer. There has not yet been a transfer of funds into the military personnel accounts to cover shortfalls in retirement accrual costs. However, the Department has proposed legislation that would provide funding relief and remove the possibility of force drawdowns.

Question. What are the major changes in the retirement system as proposed by the Administration? Will the changes affect those currently on active duty? How about those who join the Service before the legislation is enacted?

Answer. As indicated in the report we sent to Congress on November 15, 1985, the Department of Defense was required to submit two legislative drafts to accommodate the $2.9 billion reduction in retirement accrual obligations. The Department did not support or endorse either option but was required to submit them in compliance with the congressional mandate. Each option was fully "grandfathered" and designed for prospective application to new entrants into military service after enactment. The first option was a structure—only change that reduced by-year multipliers and incorporated the highest 60 months of basic pay for retired pay calculation. The other was a combination option that included reduced multipliers, reduced cost-of-living adjustments, and incorporated the present high 36 month calculation

Question. You claim that the Services would have to reduce military personnel by over 330,000 (or 15 percent) active and 176,000 (or 16 percent) reserve spaces if the legislation is not passed. What does that equate to in dollar figures? Would you please provide these reductions by Service component for the record?

Answer. The reduction equates to $2.9 billion. The most recent estimate of reductions by Service component is:

Service	Active	Reserves
Military personnel:		
Army	120,000	
Navy	86,000	
Marine Corps	30,000	
Air Force	100,000	
Reserve personnel:		
Army		44,000
Navy		26,000
Marine Corps		6,000
Air Force		12,000
National Guard personnel:		
Army		69,000
Air Force		17,000
Total	336,000	174,000

Question. Do you anticipate the retirement changes will affect your recruiting and retention? How?

Answer. Our required report to the Congress submitted on November 15, 1985, included an analysis of the effects on recruiting and retention. This analysis is contained in Section 3, Tables 3 through 6 of that report.

MILITARY PAY RAISE

Question. The Secretary of Defense has stated that, "No turnaround these past five years has been more remarkable than the improvement in (military) personnel quality and retention." Do you agree? In 1985 all four Services met or exceeded their enlistment objectives; 93 percent of those who enlisted were high school graduates. Retention is at an all-time high.

Answer. Yes, I do agree. As I indicated in my statement, we continue to enjoy success in recruiting and retaining military personnel. Each Service met its recruiting goals for FY 1985 despite substantial improvement in the economy, reduced unemployment, and a continuing decline in the size of the eligible youth population. Ninety-three percent of last year's recruits have earned a high school diploma as compared to about 75 percent of today's youth population and 65 percent of recruits in FY 1980.

As to retention, we have halted the loss of experienced people that plagued the Armed Forces in the late 1970s. The current reenlistment rate for career enlisted personnel is about 84 percent, compared to about 69 percent in 1979. The total enlisted force has grown about 4 percent since 1980, while the noncommissioned and petty officer corps has grown about 13 percent. Average years of service in the enlisted force have increased from 5.55 to 6.04 years.

Question. With all the "good news" about recruiting and retentin, why do we continue to offer increases in compensation to make the Services more attractive?

Answer. We offer increases in compensation because we want to continue our recent record of success in recruiting and retaining the numbers of high quality military personnel we need to fulfill our manpower requirements. We know all too well from experience in the late 1970s what happens when military service becomes an unattractive option for the nation's young men and women. With cooperation and support from the Congress, we have worked hard to turn around the bleak military manpower situation of that period. Having done so, it makes no sense to seize upon that success as an opportunity to restrain pay and benefits and run the risk of repeating the 1970s experience.

We have to maintain military service as an attractive career if we expect to recruit and retain the people we need. Actions have already been taken which will make our task harder. For example, military pay raises have been capped in each year since 1982 and military pay raises are now 8.3 percent behind private sector pay raises. Congress reduced our active component recruiting and advertising request for FY 1986 by $30 million and eliminated our authority to pay an enlistment bonus to Service members who also receive an educational "kicker", actions which may substantially affect our ability to attract recruits of high quality. In short, we must provide military pay raises which closely parallel private sector wage growth and make judicious use of bonus programs, promotion opportunities, and retraining programs to compete for skills that are highly marketable in the private sector or that involve particularly arduous duties.

Question. While your statement says that the military pay raises have been "modest," Congress has approved: an 11.7% raise in 1980; a 14.3% raise in 1981; a 4.0% raise in 1982; a 4.0% raise in 1984, and a total 7.0% raise in 1985.

Now you are seeking another 4 percent military pay raise for 1987. Considering the frequency, the dollar amounts involved, and the low national inflation, it is hard to consider these raises "modest." Don't you agree? (Statement of Secretary of Defense

Caspar W. Weinberger, before House Appropriations Defense Subcommittee, submitted on April 21, 1986, page 9, states military pay raises have been at "modest levels during the last few years."

Answer. My statement says nothing about military pay raises being "modest." The work "modest" appears on page 7 of my statement and refers to the compensation program we are proposing for FY 1987. It reads as follows: "In view of the compensation improvements provided in FY 86 and the constrained budget environment in which we are operating, we are proposing only modest improvements in compensation for FY 87." The stream of pay raises cited in the question, beginning with the large raises in 1980 and 1981, distorts the military pay and pay raise situation. The 1980 and 1981 raises, the original impetus for which came from the Congress in response to the alarming and rapidly deteriorating military manpower situation of the late 1970s, served only to catch up for caps which had been previously imposed on military pay raises and which were, in large measure, responsible for the manpower difficulties of that period. Since the restoration of comparability in 1981, military pay raises have fallen a cumulative 8.3 percent behind private sector wage increases. Whether or not these raises can be described as "modest" is dependent on individual interpretation, but the fact that military pay now lags further behind private sector pay than at any time since the beginning of the All-Volunteer Force is evidence that the raises have certainly not been excessive.

Question. When the benefits of free health care, exchange and commissary privileges, and the tremendous family support programs are considered, where these military members going to get a better deal than what they currently have?

Answer. Certainly a pure marketplace or "talk with their feet" approach is one criterion to judge the adequacy of military compensation. Based on press accounts at the time, it is the same concept that was advocated by the staff director of the President's Commission on Military Compensation in 1977, a time ironically which was at the early stages of what would become a mass exodus of experienced personnel from military service. These personnel, who had available to them much the same benefit package as that described in the question, apparently decided that they could get a "better deal" somewhere else and "talked with their feet" in large numbers. While the present success in recruiting and retention can be viewed as evidence that members can't do better elsewhere, we believe that this approach is myopic and that if cutbacks continue to be made in compensation, it is only a matter of time before we have another military manpower crisis on our hands.

END STRENGTHS

Question. There have been many discussions about reducing the cost of the military personnel by reducing the size of the force. One of the ways this could be accomplished would be to reduce our military strengths to NATO. What are your views on this?

Answer. This would not be an acceptable approach. U.S. vital interests in Europe are recognized in the NATO treaty, which states that an armed attack against one of the parties "shall be considered an attack against them all." The primary threat to Europe comes from the Soviet Union and its Warsaw Pact allies, which confront NATO with massive conventional forces, a sophisticated array of theater nuclear forces (including the new SS–20), and strategic nuclear forces. In designing U.S. forces, one must consider the general threat and specific contingencies. Once these factors are considered, the numbers and types of weapons and personnel required to implement the chosen strategy are determined.

The need for military forces arises from U.S. security interests and commitments. Defense manpower levels and locations should be determined based on how best to counter threats to U.S. security interests within the limits of a politically acceptable defense budget. Arbitrary limits on defense manpower in Europe distort the process of allocating required resources to support our forward deployed strategy.

Our forward force contributions to the alliance and allied burdensharing have significantly reduced the cost to the United States of deterring Soviet aggression in Europe. Because we forward deploy forces, we need not buy and maintain the additional airlift assets we would need to deploy those forces rapidly in an emergency. Stationing our forces abroad also spares us the cost of constructing and maintaining facilities for them in the United States. U.S. presence in Europe provides a continuing manifestation of U.S. dedication to the NATO alliance and the common defense.

Question. Couldn't we reduce the number of accessions if we did decrease our end strength commitments to NATO and brought some personnel back to the continental United States?

Answer. The number of accessions needed are related to the number of personnel we need in the force (the end strength) and the expected losses due to retirements and separations during the year. It is not related to the locations of these personnel. The act of bringing personnel back from Europe and stationing them in the continental United States would not directly affect our need for accessions. A restructuring of our force requirements and the related manpower could affect accession requirements.

Question. There has been a suggestion made that the Department could pull out active duty people and replace them in part with reservists. This would allow the United States to keep its commitment but reduce the cost of the military personnel stationed overseas. What are your reactions to this suggestion? Isn't it true that by increasing the use of reservists overseas that we could control the growth in active duty end strength:

Answer. The replacement of active component members in Europe with reserve component members would not necessarily save money. The mission in Europe requires full-time coverage. The expense of a reserve component member on full-time active duty, or of several sequential reserve component members filling a single full-time position will be the same, or perhaps more than, the expense of an active component member. The cost of sequential reservists actually may be more than that of an active component member due to the transportation and temporary duty costs associated with their rotation to and from overseas.

The savings associated with use of the reserve components come primarily when you have a mission that does not require full-time coverage and the reserve component members are essentially part-time for training and operations.

FY 1986 ABSORPTION

Question. The fiscal year 1986 DoD Authorization Act approved the payment of several new entitlements and discretionary incentives. However, the fiscal year 1986 Appropriation Act did not provide all the funding required for these initiatives. The Department is funding these initiatives within current levels.

Considering the $5.5 billion in appropriations reduced from the fiscal year 1986 budget request, how did the Department find the money to fund these new initiatives? What programs was this funding taken from?

The Committee understands that DoD was able to provide $293.9 million of the needed funding for the military pay raise with available resources. How was the Department able to meet this requirement within funds available in fiscal year 1986? What programs was this funding taken from?

Answer. New entitlements and discretionary incentives were funded from within each of the military personnel appropriations. Approximately $57 million became available because of lower than expected FY 1985 food and clothing costs which reduced the base upon which the FY 1986 requirement was computed. Another $35 million was covered through adjustments to existing bonuses, primarily reductions to the Army enlistment bonus program based on an Appropriation Act prohibition against paying enlistment bonuses to those who also receive the G.I. Bill "kicker".

Absorption of $293.9 million of the military pay raise was also accommodated from within the military personnel accounts. Most of the absorption was possible because of revised manpower plans which rephased growth and adjusted average grade estimates. Although recruiting and retention remain good, FY 1985 levels were somewhat lower than experienced in FY 1983 and FY 1984. Consequently, manpower projections were revised for FY 1986. Reserve training activity, primarily in Army National Guard, was slowed to reflect the FY 1985 experience. The permanent change of station (PCS) travel program was also reduced in the continuing effort to reduce the scope of this program. Unemployment compensation was reduced by $8 million based on bills received at the end of FY 1985 and revised unemployment rate estimates for FY 1986.

A separate report detailing these savings was sent to the Chairman of the Defense Subcommittee on March 6, 1986 and follows:

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301
COMPTROLLER

6 MAR 1986

Honorable Joseph P. Addabbo
Chairman
Subcommittee on Defense
Committee on Appropriations
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

The purpose of this letter is to advise you of our actions to fund certain personnel incentives and entitlements which were newly authorized, but for which no funds were included in the Appropriation Act, 1986. Since funds were available from within the military personnel appropriations to implement these new authorities, neither supplemental funding nor appropriation transfers are required. However, based on the expressed interest as contained in the Committee's Report, I am forwarding the attached information which explains the implementation of these new authorities and identifies the sources of funding. The intent and general format of this report was discussed previously with your staff and accepted as satisfying the requirements of the Report.

Although most of the new authorities implemented are entitlements, a few are discretionary. The decision to fund these programs from within the military personnel appropriations in fiscal year 1986 reflects the relatively high priority and importance these new authorities have in maintaining our manpower programs at necessary levels. In most cases, the full authority of the discretionary programs is not used. Only those increases which were judged prudent and cost effective were approved.

Hopefully, the attached information will be helpful in your very difficult responsibility of reviewing the Defense budget. I and my staff are available to assist you. An identical letter has been sent to Chairman Stevens.

Sincerely,

Robert W. Helm
Assistant Secretary of Defense
(Comptroller)

Enclosure

FINANCING NEW AND INCREASED MILITARY PERSONNEL ENTITLEMENTS AND DISCRETIONARY BENEFITS

While always mindful of our commitment to provide adequate compensation to our military personnel, the Department has been striving to manage the military personnel program as efficiently as possible. As a result we have been able to apply just over $400 million in FY 1986 to several new active military entitlements and authorities for which Congress provided no appropriations and to absorb a portion of the October 1, 1986, three percent military pay raise. Of the $400 million, $92 million was reapplied to the new entitlements and authorities, $294 million was applied to the pay raise request, and the remainder was used to fund changes in foreign military sales policy and FICA. These adjustments can be seen in the Analysis of Appropriation Changes schedule of the Justification Books.

These assets have become available from lower food costs, reductions in the scope of Permanent Change of Station (PCS) travel, slower rates of active and reserve manpower growth, rephasing of bonus and other allowance payments, lower clothing costs, rephasing reserve training, and other minor changes. These changes have been reflected in the FY 1987 budget justification books. Additionally, the cost of implementing the increase in the household goods weight allowance from 13,500 pounds to 18,000 pounds was absorbed within the congressionally approved PCS program. The attached table further explains the implementation of the new authorities.

Separately, we have also implemented some of the new discretionary incentives approved for the reserve components. The cost of this new authority was accommodated within the total funds provided for incentive programs for each account and was accomplished by rephasing the growth in the number of payments and restructuring payment schedules. The attached table also further explains implementation of these reserve incentives.

Implementation of New Authorities

Item	Description	Date Implemented	Appropriation	Cost (Dollars in Millions)		Justificat Book Page Number
				FY 1986	FY 1987	
Lump-sum Payments of Selective Reenlistment Bonuses	Title 37 is amended to require that not less than 75% of the authorized bonus amount be paid lump-sum with the remaining amount paid in equal yearly installments. Currently, installment or lump-sum payments are authorized, but the appropriations committees have favored installment payments and only appropriated sufficient funds to pay 50% lump sum. Lump-sum payments of 75 percent will be made beginning October 1, 1986.	Oct. 1, 1986		N/A	172.8	
			MPA		39.9	64
			MPN		79.8	51
			MPMC		27.2	53
			MPAF		25.9	71
Special Pay for Nuclear Personnel	(See description below)			6.2	8.1	
	Continuation Pay - Amended to allow the bonus to be paid to officers for periods of extension of 3, 4, or 5 years instead of currently only 4 year extension periods. Authorized payment amounts have been increased from $7,000 per year to $12,000 and the extensions may go up to the 26th year of service rather than the 10th year as currently specified. The Navy currently intends to use no more than $9,000 per year of the authorized $12,000 per year.	Mar. 1986	MPN	8.5	12.0	27
	Nuclear-Career Accession Bonus - Authorized payment amount has been raised from a maximum of $6,000 to $8,000. Amount paid upon acceptance for nuclear propulsion training is increased from $3,000 to $4,000 while amounts to be paid upon successful completion of such training is reduced from $3,000 to $2,000 with the total payment remaining at $6,000.	Dec. 19, 1985	MPN	*	.1	27,48

tem	Description	Date Implemented	Appropriation	FY 1986	FY 1987	J ication Bo Page Number
	Annual Incentive Bonus - Authorized payment amount is raised from $6,000 to $10,000 for those who have completed the full scope of the officer training and from $3,500 to $4,500 for those officers who received their training as enlisted members. Also changed is the current requirement to reduce the amount of the bonus after the 10th year and the 18th year based on days not spent on duties directly related to nuclear career activities. The restriction to paying the bonus to anyone with over 26 years of service is also lifted. At the present time, the Navy plans to implement with payments of no more than $7,200 and $3,600 per year, respectively. However, the number of payments can be decreased because of the positive effect of increased continuation pay amounts, resulting in reduced amounts for annual incentive bonuses. Anyone who is on active duty as of the last day of FY 1986, and is otherwisw qualified, will receive the increased payment amounts.	Oct. 1, 1985	MPN	-2.3	-4.0	27
Incentive Pay for Submarine Duty	The table pertaining to commissioned officers is changed so that the payment amounts for officers in the grades of O-3 through O-6 are not reduced after the 18th year of service. All those eligible are now entitled to receive the maximum amount of $440 per month.	Retroactive to Oct. 1, 1985	MPN	.9	1.0	23
Career Sea Pay	The tables pertaining to both warrant and commissioned officers are changed to increase the amounts paid. Amounts for warrants are increased, depending on grade, after the 10th year of sea duty. Amounts for all grades of eligible officers are increased after completion of the 14th year of sea duty. For instance, the	Retroactive to Oct. 1, 1985	MPN	.1	.1	27

tem	Description	Date Implemented	Appropriation	FY 1986	FY 1987	Justificatio Book Page Number
	new monthly pay for an O-6 with over 20 years of sea duty is now $380 versus $310. The new authority also drops the restriction against O-1's and O-2's receiving sea pay. Formerly they could receive sea pay only if they had at least 4 years prior service as a warrant officer or enlisted member. All those eligible received the increased amounts retroactive to October 1, 1985.					
Incentive Pay for Hazardous Duty	Amounts for enlisted members increased from $83 to $110 per month for most hazardous duties and the provision for crew members involved in frequent aerial flight is also restructured. Crew member pay was expanded to include commissioned and warrant officers in addition to enlisted members (Formerly, officers were paid the non-crew member flat rate of $110 per month); the table is changed to pay one amount for each grade regardless of years of service; the enlisted rates are changed to increase the minimum to $110 and the maximum is raised from $131 to $200 per month; and tables are added for commissioned and warrant officers with pays that range from $110 for general officers to $250 for O-5's and O-6's. Also, a special provision is added which authorizes $165 per month for parachutist participating in high-altitude, low-opening (HALO) missions. All those eligible received the increased entitlement effective on October 1, 1985.	Retroactive to Oct. 1, 1985		35.6	35.8	
			MPA	15.2	15.0	24,53
			MPN	10.0	10.4	23,44
			MPMC	1.4	1.4	25,47
			MPAF	9.0	9.0	29,60
Special Pay for Dental Officers	Dental officer continuation pay is repealed and replaced with a three tiered system (modeled on the special pay program for medical officers) which includes a variable special pay, additional special pay, and special pay for board certification. Under this system a board certified dentist with	Oct. 1, 1985		1.8	1.7	
			MPA	.5	.4	28
			MPN	.3	.3	26
			MPAF	1.0	1.0	36

Item	Description	Date Implemented	Appropriation	FY 1986	FY 1987	ustificati Book Page Number
	10 years of service would receive a total bonus of $14,000 per year. The maximum possible would be $17,000 per year for a dentist with over 18 years of service. The new pay system is effective October 1, 1985, but a save-pay provision is included which guarantees any dentist who is eligible for continuation pay as of September 30, 1985 no reduction in pay.					
Pay for Extension of Duty at Designated Locations Overseas	The monthly rate will be increased from $50 per month to $80 per month for all eligible members effective upon OSD policy clearance. The cost of the increased rate is partially offset by anticipated reduction in the number of moves due to more extensions.	TBA		.5	.2	
			MPA	.1	-.1	58
			MPN	.4	.4	48
			MPMC	-	-	49
			MPAF	.1	-.1	36
Selected Reserve Reenlistment Bonus	The maximum initial payment will be increased from $450 up to $600 for an enlistment of 3 years and from $900 up to $1,200 for an enlistment of 6 years. Subsequent payments not to exceed $400 may be paid upon satisfactory completion of each year of the reenlistment. Currently, the maximum total payment planned for both initial and anniversary payments is $1,250 and $2,500 for a 3-year and 6-year enlistment, respectively (Note: for a few selected critical Navy ratings where the most severe shortages occur, a total of $1,500 and $3,000 for a 3-year and 6-year enlistment, respectively.) The decreased costs for Reserve Personnel, Army and National Guard Personnel, Army reflect an Army decision to restructure the bonus program to emphasize retention by lowering the initial payment amount and increasing subsequent payments, especially in the last years of the enlistment.	July 1, 1986		(-4.1) 1/	(-11.0) 1/	
			RPA	(-1.6)	(-5.8)	99
			RPN	(.1)	(.1)	79
			RPMC	(-)	(-)	83,84
			RPAF	(.1)	(.6)	81
			NGPA	(-2.7)	(-5.9)	64
			NGPAF	(*)	(-)	87

Item	Description	Date Implemented	Appropriation	FY 1986	FY 1987	Justificatio Book Page Number
Selected Reserve Enlistment Bonus for Prior Service Personnel	This new authority provides that an enlistment bonus may be paid to a prior service member who has completed the active duty obligation and has less than 10 years service. This new bonus program for each service component will be structured consistent with the reenlistment bonus program described above.	July 1, 1986		(2.6) 1/	(4.6) 1/	
			RPA	(-)	(-)	N/A
			RPN	(.2)	(.5)	81
			RPMC	(-)	(-)	N/A
			RPAF	(2.1)	(2.7)	80
			NGPA	(.3)	(1.4)	72,73
			NGPAF	(*)	(*)	86
Selected Reserve Affiliation Bonus	The authority is increased from $25 per month to a maximum of $50 per month.	July 1, 1986		(.2) 1/	(.7) 1/	
			RPA	(-)	(-)	102
			RPN	(*)	(.1)	80
			RPMC	(-)	(-)	87
			RPAF	(-)	(*)	82
			NGPA	(.2)	(.6)	64
			NGPAF	(*)	(*)	88
Family Separation Payments	The monthly entitlement is increased from $30 to $60 for qualified members effective October 1, 1985.	Retroactive to Oct. 1, 1985		40.3	40.5	
			MPA	15.0	15.0	42,80
			MPN	14.4	14.5	34,61
			MPMC	4.5	4.5	37,67
			MPAF	6.4	6.5	49,87
BAQ/VHA Beyond 90 Days at Sea/Field	This entitlement provides payment of BAQ/VHA beyond 90 days at sea/field for members in the E-7 and above without dependents to cover full deployments and all periods of field duty. Previously, the statute suspended payment of BAQ/VHA to these members without dependents when on field/sea duty beyond 90 days.	Retroactive to Oct. 1, 1985		6.5	6.7	
			MPA	.8	.8	70,73
			MPN	5.7	5.9	56,57

Item	Description	Date Implemented	Appropriation	FY 1986	FY 1987	ustificati Book Page Number
PCS MALT/ Per Diem	This new authority restructured travel reimbursements for military personnel for expenses incurred as a result of government-directed travel. Specifically, privately-owned conveyance operating mileage allowance is paid at the rate of 15 cents per mile for member and up to 20 cents per mile for member and at least three dependents; and a per diem allowance for dependents during PCS moves is paid at the rate of $37.50 for dependents over 12 years and $25 for dependents under 12 years of age.	Oct. 1, 1985		(87.1) 2/	87.6	
			MPA	(40.0)	40.5	93a
			MPN	(12.5)	12.5	74
			MPMC	(5.7)	5.9	77
			MPAF	(28.9)	28.7	102
Household Goods Weight Allowance	The new authority increases the household goods weight allowance from 13,500 pounds to 18,000 pounds for officers and senior non-commissioned officers.	Oct. 1, 1986		-	97.5	
			MPA	*	45.2	93a
			MPN	-	6.3	74
			MPMC	-	2.1	77
			MPAF	-	43.9	102
		Total		92.0	452.0	
			MPA	31.6	156.7	
			MPN	38.0	139.3	
			MPMC	5.9	41.1	
			MPAF	16.5	114.9	

* Less than $50 thousand

1/ Cost of the Reserve incentives was accommodated from within the current Reserve incentive program for each account.

2/ The cost of PCS MALT/Per Diem is financed in FY 1986 within the approved Congressional PCS program limitation through anticipated saving from initiatives to better manage the program.

SUMMARY

FY 1986 Source of Funds for New Incentives

1.	Rephasing Manpower	$241,250
2.	Food Costs	37,788
3.	Unemployment Compensation	8,000
4.	Change in Scope of Travel (PCS)	23,942
5.	Rephase Reserve Training	33,574
6.	Clothing and Other Purchases	18,988
7.	Rephase Bonus and Other Allowance Payments	37,066
	Total	$400,608

FY 1986
Source of Funds

	Pricing	Obligation Performance	Budget Policy	Executability/ Attainability	Program Rephasing	Program Scope Change	Total
MILITARY PERSONNEL, ARMY							
Officer Crew Pay						2,092	2,092
Officer Grade Structure				15,471			15,471
Enlisted Average Strength				68,817			68,817
Subsistence in Kind	2,413						2,413
Enlistment Bonus			25,000				25,000
FICA Rate Computation	5,111						5,111
Clothing	9,291						9,291
PCS Moves						1,467	1,467
Subtotal	16,815		25,000	84,288		3,559	129,662
MILITARY PERSONNEL, NAVY							
Average Strength				33,548			33,548
Subsistence in Kind	16,552						16,552
Unemployment Compensation	2,100						2,100
Subtotal	18,652			33,548			52,200
MILITARY PERSONNEL, MARINE CORPS							
Subsistence in Kind	15,220						15,220
Reenlistment Bonus				2,955			2,955
Permanent Change of Station						5,975	5,975
Subtotal	15,220			2,955		5,975	24,150
MILITARY PERSONNEL, AIR FORCE							
Subsistence in Kind	2,800						2,800
Basic Allowance for Quarters				1,100			1,100
Unemployment Compensation	5,900						5,900
Survivor Benefits	2,900						2,900
Travel	12,300		4,200				16,500
Subtotal	23,900		4,200	1,100			29,200

FY 1986
Source of Funds
(Continued)

	Pricing	Obligation Performance	Budget Policy	Executability/ Attainability	Program Rephasing	Program Scope Change	Total
RESERVE PERSONNEL, ARMY							
Average Strength (NPS Accessions)				43,235			43,235
Clothing	6,500						6,500
ROTC Enrollments		2,300					2,300
Subtotal	6,500	2,300		43,235			52,035
RESERVE PERSONNEL, NAVY							
Clothing	1,885						1,885
General Purchases	1,312						1,312
Subsistence in Kind	803						803
Subtotal	4,000						4,000
RESERVE PERSONNEL, MARINE CORPS							
Average Strength				3,151			3,151
Subtotal				3,151			3,151
RESERVE PERSONNEL, AIR FORCE							
School and Special Training						1,800	1,800
Recruiter Strength						700	700
Outlay Rate		11,000					11,000
Subtotal		11,000				2,500	13,500

FY 1986
Source of Funds
(Continued)

	Pricing	Obligation Performance	Budget Policy	Executability/ Attainability	Program Rephasing	Program Scope Change	Total
NATIONAL GUARD PERSONNEL, ARMY							
Average Strength (NPS Accessions)				63,236			63,236
Training Rate		28,474					28,474
Subtotal		28,474		63,236			91,710
NATIONAL GUARD PERSONNEL, AIR FORCE							
School and Special Training						1,000	1,000
Subtotal						1,000	1,000
TOTAL	85,087	41,774	29,200	231,513	0	13,034	400,608

HOUSEHOLD GOODS WEIGHT ALLOWANCES

Question. The fiscal year 1986 DoD Appropriation Conference Report stated that insofar as increase to household goods weight allowances was concerned, the conferees agreed that the Department may only increase weight allowances as follows: junior enlisted personnel with dependents up to 5,000 pounds and junior enlisted personnel with no dependents up to 1,500 pounds in all situations. The conferees further stated that no other increases would be funded until the Department and GAO had completed their respective reviews on PCS program and the Congress had received and approved funding requests.

Does the fiscal year 1987 budget include a request to set the new maximum for household goods weight allowances at 18,000 pounds? Is this the same proposal that was made in fiscal year 1986?

Have the Department and GAO completed their studies on the PCS program?

Answer. Yes. The Department of Defense's fiscal year 1987 budget provides for increases to a maximum of 18,000 pounds in household goods weight allowances. This is the same proposal we requested in our fiscal year 1986 budget.

The report on household goods weight allowances by the Department is close to completion and will be submitted to Congress in the near future.

Question. Are there various "administratively" set household goods weight allowances that further limit the shipment weight based on the area of the world that the Service member may be PCS'd to?

Answer. Yes. Service members ordered to PCS to and from an overseas station designated by a Service as a place where either public or private housing is furnished with Government-owned furnishings are limited to a shipment of household goods of 2,000 pounds (net weight) or 25 percent (net weight) of their maximum weight allowed, whichever is greater. However, the member is allowed to ship unaccompanied baggage to and from an overseas assignment when Government-owned furnishings are provided. When both husband and wife are Service members, are assigned to the same overseas area, and occupy the same Government-furnished quarters, they are limited to one administrative weight allowance of 2,000 pounds net weight or 25 percent net weight of maximum weight allowed which is based on the allowance of the member with the highest rank. Both members are, however, allowed to ship individual unaccompanied baggage and professional books, papers, and equipment.

PERMANENT CHANGE OF STATION

Question. In fiscal year 1987, the Army's operational moves decrease by approximately 5,000 moves, however, the costs increase by approximately $6 million. Why did the costs increase substantially while the number of moves are going down? The Army's rotational moves in fiscal year 1987 drop approximately 14,000 from the fiscal year 1985 level while the costs increase by about $45 million. Why do the costs increase so substantially when the moves are decreasing?

Army answer. The Army's operational and rotational moves decrease by −4,956 and −14,144 respectively from FY 1985 to FY 1987. These reductions will be accomplished through various Army policy and program initiatives to be implemented in late FY 1986 and FY 1987. The overall costs for operational and rotational moves increase due to new permanent change of station (PCS) entitlements, i.e., temporary lodging expenses, revised mileage rates, dependent per diem and increased household goods weight allowances. The cost of the new entitlements more than offsets the move reduction savings. The total PCS cost for the new entitlements is $184 million.

Question. In fiscal year 1987 the Navy's training moves decrease by about 2,000 moves from fiscal year 1985 levels, while the costs in fiscal year 1987 increase by approximately $2.4 million over fiscal year 1985 levels. Why do the costs increase while the number of moves are going down?

Navy answer. The average cost per training move is higher in fiscal year 1987 than in fiscal year 1985. This higher average cost per move is due to the entitlement increases provided by the FY 1986 DOD Authorization Act. These entitlements include household goods weight allowance for junior enlisted personnel, temporary lodging expense and dependent per diem. The savings realized for the fewer number of moves, offset by the authorized entitlement increases, results in a higher cost for training moves.

Question. In fiscal year 1987, the Marine Corps plans to reduce their separation moves by approximately 4,600 from fiscal year 1985 levels, while the cost for separation moves in fiscal year 1987 increases approximately $2,000,000 over fiscal year 1985 levels. Why when the number of moves are going down does the cost increase so greatly?

Marine Corps answer. The cost of separation travel moves has increased even though the number has decreased because of the new entitlement for dependents, dependent per diem, and household goods weight allowance increases for junior enlisted personnel in FY 1986. In FY 1987, across-the-board household goods weight allowance increases have been included in the request.

Question. In fiscal year 1987, the Air Force plans to reduce its accessions moves by 400 from fiscal year 1985 levels, while increasing the budget for accessions moves by approximately $13 million over fiscal year 1985 levels. Why when the moves are decreasing is the total cost increasing to such a great extent? In fiscal year 1987, the Air Force is increasing its training moves by approximately 100 over fiscal year 1985 levels, while increasing the total costs of the training moves by approximately $10,000,000. Why when the training moves are only increasing by approximately 100 does the budget increase by $10,000,000?

Air Force Answer. The cost for both accession and training moves increases as a result of new PCS entitlements. The increased household goods weight allowances for junior enlisted members were authorized in fiscal year 1986. Prior to this time junior enlisted personnel were only authorized to ship 225 pounds of household goods in CONUS and 1,500 pounds overseas. The new entitlement authorizes those with dependents to ship 5,000 pounds and those without dependents to ship 1,500 pounds. Additionally, the newly authorized entitlement for dependent mileage and per diem contributed to the cost increase. Prior to fiscal year 1986, junior enlisted members had to pay for their dependent travel expenses while making a PCS move in the CONUS. The junior enlisted members make the majority of accession and training moves. As a result, there is a significant cost increase in these two move categories to absorb the expenses heretofore paid out-of-pocket by the junior enlisted member.

Question. In fiscal year 1987, the Navy's average cost of a PCS move is $1,676, down from the fiscal year 1986 average cost per move. Why does the Navy's average costs go down when the other Services costs are going up?

Navy answer. The Navy's fiscal year 1987 average cost per move is lower than the fiscal year 1986 average due to a greater proportion of moves being in the accession and separation categories. These moves are less expensive than the operational, rotational and training categories. The Navy average cost per move of $1,840 includes all travel categories as well as nontemporary storage and temporary lodging expense. Although we cannot address the other Services estimates, the composition of a move program depends on requirements by travel category which have a direct impact on the overall average cost.

Question. Why does the DoD average cost of a PCS move increase by 2.7 percent (from $1,984 in fiscal year 1986 to $2,039 in fiscal year 1987), when the number of moves increases by only .2 percent from fiscal year 1986 to 1987?

Answer. The average composite cost of a PCS move in FY 1986 is $2,191 compared to $2,254 in FY 1987, an increase of 2.9 percent. Moves, however, decrease by 713 (or .06 percent) from FY 1986 to FY 1987. With enactment of the DoD Authorization Act of 1986, major changes were made to the reimbursement system for PCS transportation and subsistence expenses. A PCS system similar to that afforded civilians was implemented. The revised system provides for a mileage allowance in lieu of transportation (MALT) rate for travel by privately owned conveyance (POC) based on the number of people (including children under two) traveling together, authorizes the use of a second car, and provides a per diem allowance to cover the meal and lodging costs for dependents regardless of mode of travel. Additionally, Congress directed that the allowances be paid to junior enlisted members within CONUS. Service members are also entitled to a per diem allowance to meet subsistence expenses for themselves and their dependents. Congress did not provide funds for the dependent MALT and per diem allowances, requiring these additional expenses to be absorbed from within available FY 1986 resources. These costs have been included in the FY 1987 budget. The DoD Appropriations Act of 1986 raised the ceiling on household goods weight allowance from a maximum of 13,500 to 18,000 pounds. The PCS budget for FY 1987 includes $97.5 million to provide the higher allowances to military members with dependents. These congressionally approved PCS reimbursement enhancements have increased the average cost of moves for all Services.

SELECTIVE REENLISTMENT BONUSES

Question. Effective on January 15, 1982, Selective Reenlistment Bonuses were paid in a lump-payment up to 50 percent of the bonus, with the rest paid in equal installments over the enlistment period. Effective October 1, 1986, with the fiscal year 1986 DoD Authorization Bill, the initial lump sums payment was raised to 75 percent of the bonus.

What has been the effect of the additional 25 percent of the bonus being paid in lump sums on the reenlistment rate?

Answer. The Department will not be able to give a meaningful assessment of the effect of the change in the method of payment on retention until a reasonable period has elapsed after the October 1, 1986 implementation date. However studies indicate that the influence should be positive.

Question. What has been the outlay effect of changing from 50 percent of the bonus in the lump sum payment to 75 percent of the bonus in lump sum payment?

Answer. The change to 75 percent lump sum increased the selective reenlistment bonus budget for fiscal year 1987 by nearly $173 million, thus raising the total cost of the program to $803 million.

Question. What are the Department's outyear projections for the SRB program? Please break this out by new payments, takers, and by anniversary payments and takers.

Answer. For fiscal year 1987, the Department projects an SRB budget of $515 million for 68,866 new bonus reenlistments. Budget projections for new payments beyond fiscal year 1987 are currently being revised by the Services in preparation for the fiscal year 1988 budget. The cost and number of anniversary payments as contained in the fiscal year 1987 President's Budget are as follows:

DOD SRB ANNIVERSARY PAYMENTS

[dollars in millions]

	Number of payments	Cost
Fiscal year 1987	248,403	$288,080
Fiscal year 1988	245,884	249,256
Fiscal year 1989	182,476	168,926
Fiscal year 1990	126,377	101,260
Fiscal year 1991	70,550	44,920

SELECTED RESERVE INCENTIVE PROGRAM

Question. The fiscal year 1986 DoD Authorization Bill extended the authority to pay the Selected Reserve bonus until September 30, 1990. The Authorization also included a recommendation to increase the maximum payment from $25 per month to $75 per month for each month of remaining obligated service. Have the new bonuses with a $75 maximum for the Selected Reserve Incentive Program been implemented yet? If not, when do you plan to have the new bonuses implemented? How much is budgeted in fiscal year 1987 for these new bonuses?

Answer. The provisions contained in the Fiscal Year 1986 DoD Authorization Act (Public Law 99-145) provided authority for expansion of affiliation and reenlistment bonus ceilings and a new prior service bonus to attract veterans with critical skills. These authorities were authorized only until September 30, 1987. No funds were appropriated. For the enhanced and new programs, however, both the Senate Appropriations Committee and the House Appropriations Committee Reports on the 1986 DoD Appropriations Act, included the requirement to submit requests for supplemental funding or prior approval reprogramming prior to utilization of these authorities. It was subsequently agreed with the Committees, however, that since the DoD was able to fund FY 1986 implementation of these expanded and new authorities within existing appropriations by program, prior approval reprogramming was not necessary. The decision to fund these programs from within the FY 1986 military personnel appropriations reflects the high priority and importance these new authorities have in maintaining manpower programs at necessary levels. The maximum bonus levels authorized in the discretionary programs have not been implemented by the Services. Only those increases judged prudent and cost effective were approved, as follows:

FISCAL YEAR 1986 SELECTED RESERVE INCENTIVES

Incentive type	Maximum amount—1986 DoD Authorization Act	DoD fiscal year 1986 approved	Fiscal year 1987 budget (thousands)
Reenlistment	3 year $2,500	Up to $1,500	
Bonus	6 year $5,000	Up to $2,500	
Total			$39,018
Prior service	3 year $2,500	Up to $1,500	
Bonus	6 year $5,000	Up to $2,500	
Total			4,689
Affiliation	Up to $50/month	Up to $50/month	
Bonus			
Total			4,966

All Services will have implemented these programs by July, 1986.

CORRECTIONS TO BASIC ALLOWANCE FOR QUARTERS RATES

Questions. In fiscal year 1987, the Department is asking for corrections to basic allowance for quarters (BAQ) rates. This proposal will adjust the basic allowance for quarters rates to ensure equal housing compensation and absorption for each military pay grade.

Please explain this latest proposal to us.

What are the costs associated with this legislative proposal?

Answer. the proposal would provide variable increases in the BAQ rates for grades 0-1 through 0-3 and E-1 through E-3 and, in addition, would establish separate BAQ rates for commissioned officers with over 4 years active duty as an enlisted member and/or warrant officer. The restructuring of BAQ rates for these grades is necessary to bring them in line with the concept used by Congress to set BAQ rates in January 1985. It was intended at that time that BAQ rates for each grade be equal to 65 percent of the median housing costs in that grade. However, grades E-1 through E-3 with dependents were lumped together to establish a single with dependents BAQ rate, and in doing so, the BAQ rate for E-3 was set too low and that for grade E-1 was set too high. In addition, no distinction was made in the BAQ rates for junior officers (grade 0-1 through 0-3) with prior enlisted/warrant officer service even though data from the DoD survey used to set variable housing allowance (VHA) rates show that these officers have a significantly different housing expenditure pattern than junior officers without prior enlisted/warrant officer service. The variable BAQ increases and the establishment of separate BAQ rates for commissioned officers with prior enlisted/warrant officer service correct these inequities and place the BAQ rates for these grades on the same basis as that for all other grades. There is no cost associated with this proposal. The overall increase in BAQ rates is 4 percent and funding for a 4 percent increase in basic pay, BAQ, and basic allowance for subsistence (BAS) has been included in the President's Budget.

CLAIMS FOR LOSS OR DAMAGE TO PERSONAL PROPERTY

Question. In fiscal year 1987, the department is asking for $400,000 to increase the limit on payments from $25,000 to $40,000 for the loss, or damage to, personal property. In 1982, Congress increased the limit on payments for those suffering losses in foreign countries due to hostile acts or forced evacuations from $15,000 to $40,000.

Why is the department asking for an increase to the limit on payments to $40,000 for those who would suffer losses to personal property, but not fall under the stipulations of the current $40,000 limit?

How many people are we talking about each year? Does the Department have data to support this number?

What would be the outyear cost of such a program?

Answer. As stated above, in 1982 Congress increased the maximum payable under the Military Personnel and Civilian Employees Claims Act from $15,000 to $40,000 for those suffering losses in foreign countries due to hostile acts or forced evacuations. However, it was only increased to $25,000 for all others. The Act established a favored class of beneficiary for those who had at that time received great public sympathy in the attacks on our embassies in Iran and Pakistan, but at the expense of the general Service member or employee. Our proposed legislation will restore that balance. While claimants suffering losses in excess of $25,000 each year are few in number, each incidence is a great personal hardship to the individual and his or her family.

It is estimated that approximately 36 individuals would be affected each year. The estimate is based on actual FY 1984 data.

The outyear cost is estimated to be:

Fiscal year	*Millions*
1988	$0.4
1989	.5
1990	.5
1991	.5

COMMISSARY RETAIL STORE OPERATIONS

Question. What is the total number of stores in the fiscal year 1987 budget? Please compare with fiscal year 1984, 1985, and 1986. (Please break this down by Army, Navy, Marine Corps and Air Force.)

Answer. The following is the requested breakout of military commissary stores:

	Number of stores			
	Fiscal year 1984	Fiscal year 1985	Fiscal year 1986	Fiscal year 1987
Army	[1]178	[1]178	[1]178	[1]178
Navy	81	80	80	80
Marine Corps	15	15	15	15
Air Force	138	139	144	153
Total	412	412	417	426

[1] *Note.* Some other budget exhibits may show 139 stores for Army. The 178 number includes 139 operating locations previously designated as annexes and operated as satellite operations on large military installation. DoD policy has been redefined to classify all commissary locations as stores. This clarification or redefinition of policy has been used in complying with the Appropriations Committee direction to limit the number of stores in the 48 contiguous states to 247. The following is the number of stores in the 48 states by Service:

Fiscal year 1987

Army	73
Navy	58
Marine Corps	13
Air Force	100
Total	244

Question. What are the total personnel end strengths for fiscal year 1987, as compared with fiscal year 1984 and 1985 and 1986? Please break this down by military and civilian and by Army, Navy, Marine Corps and Air Force totals.

Answer. The table follows:

PERSONNEL END STRENGTH

	Fiscal 1984		Fiscal 1985		Fiscal 1986		Fiscal 1987	
	Military	Civilian	Military	Civilian	Military	Civilian	Military	Civilian
Army	194	9,887	194	9,594	192	9,443	192	9,477
Navy	1,275	2,519	1,551	2,798	1,211	2,864	1,067	2,851
Marine Corps	2	791	2	819	2	776	2	778
Air Force	396	8,169	470	8,278	440	8,383	454	8,354
Total	1,867	21,366	2,217	21,489	1,845	21,466	1,715	21,460

Question. What is the total appropriated fund support for the commissary store operations in fiscal year 1987? Please compare this with fiscal year 1984, 1985, and 1986. Please break this down by Service and by the following categories: military personnel funds, O&M civilian pay, O&M non-personnel (excluding overseas transportation), and O&M overseas transportation.

Answer.

[In thousands of dollars]

	Fiscal year—			
	1984	1985	1986	1987
Military personnel funds:				
Army	5,676	5,851	5,662	5,888
Navy	26,866	38,378	35,473	29,077
Marine Corps	30	42	45	45
Air Force	7,066	11,534	12,525	12,464
Total	39,638	55,805	53,705	47,474
O&M—Civilian pay:				
Army	176,463	183,003	194,912	204,070
Navy	51,390	52,411	56,936	57,466
Marine Corps	15,779	16,826	16,810	16,999
Air Force	160,458	166,709	164,448	171,548
Total	404,090	418,949	433,106	450,083
O&M—Nonpersonnel (excluding overseas transportation):				
Army	4,243	5,864	4,099	6,595
Navy	21,330	22,330	25,254	25,603
Marine Corps	722	906	988	1,028
Air Force	20,674	25,487	32,241	33,461
Total	46,969	54,587	62,582	66,687
O&M—Overseas transportation:				
Army	84,048	42,446	50,532	42,465
Navy	21,637	14,002	16,670	14,271
Marine Corps	298	155	219	228
Air Force	58,000	39,014	51,811	41,246
Total	163,983	95,617	119,232	98,210
Total operations funds:				
Army	270,430	237,164	255,205	259,018
Navy	121,223	127,121	134,333	126,417
Marine Corps	16,829	17,929	18,062	18,300
Air Force	246,198	242,744	261,025	258,719
Total	654,680	624,958	668,625	662,454

Question. What is the total nonappropriated funds support for commissary retail store operations in fiscal year 1987? How does this compare with fiscal years 1984, 1985, and 1986?

Answer. The nonappropriated funds used for offsetting appropriations for commissary operations are generated by a 5 percent surcharge paid by authorized patrons on all purchases in commissaries. The following are the revenues generated:

SURCHARGE REVENUES

[In thousands of dollars]

	Fiscal year—			
	1984	1985	1986	1987
Army	78,100	84,028	81,389	83,741
Navy	38,700	40,700	43,800	47,400
Marine Corps	7,500	8,100	8,600	9,000
Air Force	107,400	119,300	116,200	120,800
Total	231,700	252,128	249,989	260,941

Question. Were there any reductions in the appropriated funds support for 1986 due to Gramm-Rudman-Hollings deficit reductions? What was the total and how was it applied by Service?

Answer. There were no budget cuts associated with Gramm-Rudman directly aimed at commissaries. All budget reductions were made in accordance with DoD and administration guidance and associated with the overall President's budget.

INFLATION IN THE MILITARY PERSONNEL ACCOUNT

Question. Please provide the inflation percentage used to develop the fiscal year 1984 budget; please provide the inflation factor for fiscal year 1984 that appeared in the fiscal year 1985 budget; please provide the actual inflation factor for fiscal year 1984.

Please provide the inflation factor used to develop the fiscal year 1985 budget; please provide the inflation factor that appeared in the 85 line of 86 budget; please provide the actual fiscal year 1985 inflation factor.

Please provide the inflation factor used to develop the fiscal year 1986 budget; please provide the inflation factor that is used in the fiscal year 1986 line of the 1987 budget.

Please provide the inflation factor used to develop the fiscal year 1987 budget.

Answer. The information follows:

INFLATION PERCENTAGE

	FY 1984	FY 1985	FY 1986	FY 1987
FY 1984 Budget	5.3			
FY 1985 Budget	4.3	4.9		
FY 1986 Budget	3.8	3.7	4.4	
FY 1987 Budget		3.6	3.2	4.1

While the above are the OMB approved purchase inflation rates authorized for use in developing military personnel budgets, actual or announced rate changes are used when known. Also an inflation factor is only added to subsistence-in-kind, temporary lodging allowances overseas and the commercial portion of PCS. Because not all dollar amounts are inflated, the authorized inflation rate is usually higher than the composite rate. For example, in FY 1987 the active duty military personnel accounts include $73.2 million for inflation, an average or composite rate of only 3.2 percent. In the President's FY 1986 budget submission, the composite inflation rate was 3.1 percent, vice the 4.4 percent authorized by OMB.

ARMY'S MOVING EXPENSES

Question. The Army recently made excessive payments of at least $4.5 million to private firms for movement of military household goods. The overpayments occurred when the Army selected the highest bidders to move military households to Washington, D.C.

The Department is supposed to choose the lowest bidder rather than the highest bidder. What happend in this case?

Army answer. The problems resulted when household goods shipments destined to Northern Virginia were awarded to carriers who had low rates to the state of Virginia but very high rates to the Washington, D.C. metropolitan area which, for rate purposes, includes part of Northern Virginia. The Military Traffic Management Command has taken a number of corrective actions to prevent a recurrence of this situation.

Question. How much was the total overpayment? Will the Department be able to recoup the money?

Army answer. A total of $4,306,604.00 in overpayments has been identified to date. This figure applies to 612 shipments for all Services. Of the 612 total shipments, 432, or 70%, were Army shipments. To recoup the overpayments, the General Services Administration is taking set-off action on incoming vouchers from the carriers involved.

ARMY COLLEGE FUND KICKER

Question. The fiscal year 1986 Department of Defense Appropriation Bill contained a prohibition on the payment of an Army College Fund Kicker to any service member who also received an enlistment bonus. The conferees agreed that duplication of these two programs is excessive to the needs of the Army. Has this change had any effect on the Army's ability to recruit? What has been the Army's experience with the number of accessions that chose the Army College Fund versus the enlistment bonus? How many are choosing the enlistment bonus?

Army answer. The delinking of cash bonuses and the Army College Fund (ACF) (Kickers) was implemented on 26 December 1985. A complete analysis of this delinking can be made when more data is available. However, it appears from preliminary data that several changes are taking place. First, we have seen a migration from 4-year terms of service to 3-year and 2-year terms. Comparison of accession data for the period 1 October 1985 through 19 December 1985 with similar data from the period 20 December 1985 through 24 February 1986 reveals that high quality accession years of active duty obligation reduced from 3.45 years to 3.25 years. In addition, the percent of high quality accessions who opted for the 4-year term dropped significantly from 56.2% to 40.6%, while those choosing the 3-year term increased by 9.4% and those choosing the 2-year term increased by 6.2%. This migration will cause a significant increase in recruiting requirements in FY 89 and beyond (estimated to be 4–6,000 per year). Second, migration is also occurring from combat arms military occupation specialty (MOS) to noncombat arms MOS. During the same periods of time mentioned above, the number of high quality individuals who accessed into combat arms MOS dropped 5.3% after delinking. This trend may require the Army to introduce higher bonus levels or other incentives to meet quality needs of the combat arms. Third, our contract experience since delinking shows 62% (6,684) choosing ACF and 38% (4,060) choosing cash bonuses.

SEA COLLEGE

Question. The Committee understands that the Secretary of the Navy has announced plans to begin a Sea College program patterened after the very successful Army College Fund. The Sea College would be aimed at attracting high-quality recruits by providing extra college education money.

Does the fiscal year 1987 budget contain funds for this Sea College?

Answer. The FY 87 budget contains no money for this program.

Question. How many recruits do you plan to offer the Sea College to?

Answer. The program will be offered to 3000 recruits in FY 87.

Question. Will there be an additional Service obligation to those enrolled in the Sea College Program?

Answer. The total Service obligation is eight years; two years active duty, four years in the Selected Reserve and two years in the Individual Ready Reserve.

Question. How will the benefits compare to the benefits supplied by the Army College fund?

Answer. The benefits will be equal to the Army College Fund for two-year enlistees.

Question. How will this program be affected with the cancellation of the New GI Bill?

Answer. If the Veterans Educational Assistance Program (VEAP) is reinstated, the following will be required:

Navy would request authority from SECDEF to implement the Sea/College program under VEAP.

The total benefit would remain the same.

END STRENGTH IN EUROPE

Question. The fiscal year 1985 DoD Authorization Act limited the permanent end strength on duty ashore in Europe to 326,414. The fiscal year 1986 Authorization Act gave the Secretary of Defense a 0.5 percent flexibility in this end strength. This 0.5 percent flexibility would increase the authorization to 327,046. What is the current permanent end strength on duty ashore in Europe?

Answer. As of September 30, 1985, the Department had 321,947 permanent on duty ashore personnel in Europe.

UNEMPLOYMENT COMPENSATION

Question. On November 22, 1985, the Air Force audit agency submitted a report of an audit done on unemployment compensation for former Air Force members. The audit report stated that the Air Force had not established adequate internal controls over unemployment compensation costs for former Air Force members. There was no verification of the states' billings as submitted by the Department of Labor, and fraud controls were inadequate or not complied with. What has the Air Force done to implement the recommendations made by the Air Force audit agency?

Answer. In response to Audit recommendations the Air Force Accounting and Finance Center (AFAFC) requested that the State Employment Security Agencies send quarterly detailed claimant listings to the Air Force Military Personnel Center (AFMPC) for verification of claims. AFMPC has begun receiving listings and is verifying claimant eligibility for Unemployment Compensation (UCX), annotating those names determined ineligible and forwarding listings to AFAFC for payment. AFAFC corresponds with states on disputed claims and pays bills. The States adjust overpayments on the next quarter's billing listing. The Air Force is also working with Department of Labor (DOL) to streamline and automate verification.

AFMPC has, in conjunction with DOL, established a monitoring program to improve DD Form 214, Certificate of Release or Discharge from Active Duty, timeliness. The program includes reemphasis with base personnel offices on the necessity for forwarding separation documents to DOL within one workday after separation and receipt of a periodic report from DOL on separation document timeliness.

The Air Force has asked the Office of the Assistant Secretary of Defense (Comptroller) to request a change in DOL policy to allow the Air Force to withhold payment from DOL UCX billings for exceptions noted during the Air Force's verification process. We are awaiting a response.

As stated in the audits an internal control system has been established to insure proper authentication of DD Forms 214 to include personal review and certification at the management level as well as internal written operating instructions.

AFAFC has requested DOL to identify specific fraudulent claims within the states of New Jersey and California and to require those states to restore funds to the Air Force. We are awaiting action from DOL.

The Air Force has asked the Office of the Secretary of Defense for guidelines on the management of the Unemployment Compensation program for all services as well as the development of standard claims verification procedures among the services. Air Force has also requested DOL involvement in oversight of state verification procedures.

Question. The fiscal year 1986 DoD Appropriation Bill report requested that the Department of Defense review both the GAO study on unemployment compensation and the Air Force audit agency's study on unemployment compensation. Has the Department complied with this request?

Answer. Both reports have been reviewed, and we have had meetings with the Department of Labor to attempt to resolve the cited irregular payments. In response to audit recommendations the Air Force Accounting and Finance Center (AFAFC) requested the State Employment Security Agencies send quarterly detailed claimant listings to the Air Force Military Personnel Center (AFMPC) for verification of claims. AFMPC has begun receiving listings and is verifying claimant eligibility for unemployment compensation, annotating these names determined ineligible and forwarding listings to AFAFC for payment. AFAFC corresponds with states on disputed claims and pays bills. The states adjust overpayments on the next quarter's billing listing. The Air Force is also working with Department of Labor (DoL) to streamline and automate verification.

Question. How does the Department plan to implement the recommendations of the Air Force audit agency?

Answer. In response to audit recommendations the Air Force Accounting and Finance Center (AFAFC) requested that the State Employment Security Agencies send quarterly detailed claimant listings to the Air Force Military Personnel Center (AFMPC) for verification of claims. AFMPC has begun receiving listings and is verifying claimant eligibility for unemployment compensation, annotating these names determined eligible and forwarding listings to AFAFC for payment. AFAFC corresponds with states on disputed claims and pays bills. The states adjust overpayments on the next quarter's billing listing. The Air Force is also working with the Department of Labor (DoL) to streamline and automate verification. If the results of these efforts show a decrease in erroneous payments by the Air Force and a faster response to state unemployment agency inquiries, we will work with the other Services to extend this or institute similar programs.

AFMPC has, in conjunction with DoL, established a monitoring program to improve DD Form 214 timeliness. The program includes reemphasis with base personnel offices on the necessity for forwarding separation documents to DoL within one workday after separation and receipt of a periodic report from DoL on separation document timeliness.

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AFAFC has requested DoL to identify specific fraudulent claims within the state of New Jersey and California and to require those states to restore funds to the Air Force. We are awaiting action from DoL.

ACTIVE COMPONENT MANPOWER

Question. Last year this committee was informed that the Department had freed up approximately 50,000 active duty military spaces between fiscal years 1982 and 1985 by transferring missions to the reserve components, civilian substitution, and contracting out programs. The data provided varied greatly by Service. For example, between fiscal years 1982 and 1985, the Army civilianized approximately 4,674 military spaces while the Navy civilianized approximately 200 spaces during the same fiscal years and the Air Force civilianized approximately half the amount that the Army did. Why is there such a great variation between Services for the civilianization of military spaces? Please provide a breakout of these civilianized spaces by CONUS and OCONUS for fiscal years 1984 to 1986.

Answer. The civilianization of military spaces by the Services for fiscal years 1984 to 1986 is as follows (does not include contracting out program):

	Fiscal year—		
	1984	1985	1986
Army total	1,967	1,707	832
Navy total	23	68	456
Air Force total	0	270	2,600
DOD total	1,990	2,045	3,888

The CONUS/OCONUS breakout is not readily available.

The variations among the Services are the result of each individual Service's evaluation of its manpower requirements. The ability of each Service to convert military positions to civilian positions is dependent upon the missions, deployment status, rotation base needs, and the evaluation of individual positions as to the requirement for incumbent military. Deployment requirements and the necessary rotation base, including the Navy's sea-shore rotation base, are important considerations in evaluating the feasibility of military to civilian position conversions. The time phasing of civilianization actions is also programmed to minimize turbulence in both the military and civilian components as much as possible.

Question. The number of active duty military spaces freed up due to contracting out also varies considerably by Service. For example, between fiscal years 1982 and 1985, the Navy contracted out 2,169 active duty military spaces while the Air Force contracted out only 634 spaces, the Marine Corps contracted out only two spaces and the Army contracted out 1,624 spaces.

a. Why does the contracting-out program vary by Service?

b. What type of military spaces and skills are contracted out?

Answer. There is no single reason for the differences. Factors that can affect military space contracting-out, as well as civilianization, include: mission variances, the number of previous conversions, future needs for military skills more critical than those being converted, and the fact that the number of military spaces contracted out is extremely small when compared to the total military strength of each service. In general, the Services convert military spaces because of a need for those spaces in more critical mission areas. Military spaces that have recently been converted include:

Army—food service, motor pool, storage and warehousing, industrial operations, installation support, personnel services, and data processing.

Navy—custodial services, food service, motor pool, admin support services, aircraft maintenance (intermediate level), storage and warehousing, training devices and simulators, and data processing.

Air Force—base supply, admin support services, audiovisual services, and protective coating.

Marine Corps—laundry services, buildings maintenance and garbage disposal operations.

Question. Please provide a break out of the military spaces that were contracted out in CONUS and OCONUS for fiscal years 1984–1986.

Answer. The Department of Defense applies the OMB Circular A-76 Program to activities in the 50 States, the District of Columbia and in U.S. Territories. Consequently, the breakout only reflects contracting-out actions in those areas:

Service and function	*Military*
Army:	
Data Processing Service	6
Food Service	698
Audiovisual Service	34
Motor Vehicle O&M	155
Storage and Warehousing	10
Messenger Service	11
Industrial Operations	165
Personnel Services	91
Aircraft Fueling	5
Admin Telephone	7
Provost Marshall Support	12
Admin Support	16
Ambulance Service	2
Installation Support	106
Navy:	
Custodial Service	42
Food Service	16
Motor Vehicle O&M	19
Storage and Warehousing	59
Admin Telephone Service	7
Admin Support	25
Training Devices and Simulators O&M	1,362
Aircraft Maintenance (Intermediaate)	811
Audiovisual Service	13
Buildings Maintenance	1
Air Force:	
Supply Service	438
Admin Support	91
Ground Communications/Electronics	20
Protective Coating	48
Audiovisual Service	6
Grounds Maintenance	5
Motor Venicle O&M	16
Marine Corps:	
Building Maintenance	49
Laundry Service	6
Garbage Collection Service	1

Question. In data provided to this Committee last year, the Navy indicated that they had transferred to the Reserves approximately 28,293 positions from fiscal years 1982 to 1985. This is four times the number that the Air Force transferred to the Reserves during the same time period and almost ten times the number that the Army transferred to the Reserves for the same time period. Why the differences between the Services?

Answer. The variations among the Services are the result of the individual Service's evaluation of its manpower requirements. Each Service must consider the specific mission with which it is tasked and the feasibility of performing those missions with either military (active or reserve component) or civilian (Federal employee or contractor) personnel. Many factors such as current policy, responsiveness required, forward deployment taskings, career progression, military unique training and experience needs, and many others are considered in making these decisions. The numbers of spaces transferred from the active component to the reserve components are a direct result of the missions transferred from the active to the reserve components. The numbers may also differ due to the specific time period considered and to the direct assignment, as opposed to the transfer, of mission to the reserve components. The Navy, during this time period, has also reclassified some of its personnel from active to reserve component without any change in personnel, program, or mission. For example, the Navy's Training and Administration of Reserves (TARs) personnel were counted as active component prior to FY 1983; effective in FY 1983, the TARs (approximately 12,000 personnel) are counted as reserve component personnel. This resulted in an apparent increase in reserve component strength and an apparent decrease in active component strength.

ARMY RECRUITMENT

Question. Last month we learned that for the first time in almost five years, the Army failed to meet its quarterly recruiting goal. The Army recruited only 31,900, instead of the 32,500 which was the 1st Quarter goal of fiscal year 1986. What does the Army attribute this recruiting shortfall to? Are there any indications as to what the 2nd Quarter of fiscal year 1986 looks like? Is this an ominous sign as to what the future holds for the Army and the other military Services?

Answer. The 1st Quarter recruiting statistics reported to OSD were based upon calendar months and were accurate. The Army did not, however, miss its 1st Quarter accession requirements as given to the Recruiting Command. This mission was 31,494 and achievement was 31,721 for 100.7%. In order to align the flow of new accessions into the training base with the scheduled start of basic training classes, the Army missions its recruiting force in terms of Reception Station Weeks, which begin on Tuesday and end on Monday, and Reception Station Months, which end on the last Monday of each month. Recruiting Command's monthly missions are then converted to calendar month estimates for reporting purposes, including the reports sent to OSD. This conversion methodology is based upon historical results and has proven very accurate in the past.

With historical statistics, it was projected that approximately 1,200 accessions would occur on Tuesday, 31 December 1985 and the Army would achieve 101% of its 1st Quarter mission. However, this particular Tuesday was also the last day of the calendar month and New Year's Eve. Therefore, except for a small number of recruits who elected to enlist on 31 December, the vast majority of those scheduled for the week of 31 Dec–6 Jan enlisted and departed for the Reception Station on 2–3 January. This had no impact on the training base and, while technically not a part of December calendar month accessions, they arrived to begin training in the anticipated week. The net result to the Army for this year's mission remains the same. However, because their accession did not occur on 31 December, an inaccurate conclusion could be drawn that the Army Recruiting Command had missed its accession goals.

Second Quarter FY 86 recruiting achievements have exceeded objectives by 1,780 through the end of calendar February, thus bringing the year-to-date achievement to 102% of objectives (58,438 achieved versus a mission of 57,310). Projections for calendar March predict 100.2% mission accomplishment with year-to-date projections through 2nd Quarter at 101.7% of the 67,058 objective.

Despite an increasingly difficult recruiting environment, the Army does not anticipate problems of such magnitude as to prevent achievement of its future recruiting objectives. The Army continues to man its recruiting force with professional, high quality personnel who have successfully met the challenges of the past with enthusiasm and dedication. The same maximum effort that has resulted in past recruiting successes will ensure similar results in the future, with the continued support of our recruiting incentive programs by the Congress.

AIR FORCE MANPOWER REQUIREMENTS

Question. The fiscal year 1987 budget includes an Air Force request for an additional 730 active duty personnel. Last week, we had the Army testify that they can absorb a small increase like this without increasing end strength by taking billets from headquarters functions. Why has the Air Force requested an end strength increase rather than reducing support functions like the Army has, to supply such a relatively small increase? An addition of 730 end strength represents one-tenth of one percent of an increase over 1986 levels. Could the Air Force absorb this increase without increasing end strength? The Air Force Audit Agency filed a report on the accuracy of the Air Force Manpower Requirements on April 18, 1986. The auditors stated that manpower requirements were inaccurate at approximately half of the centers they reviewed. What has the Air Force done to implement the recommendations made by the Air Force Audit Agency to improve manpower requirements determination?

Answer. Sufficient programmatic candidates are not available to eliminate the remaining FY 87 growth. The Air Force initiated deliberate management action for FY 87 to realign lower priority requirements to high priority growth programs. The required military growth for the Air Force in FY 87 is nearly 9,100 spaces, but almost 92 percent of these requirements have been offset from existing resources. Many of the offsets came from force structure adjustments and rebasing actions; however, almost 5,000 spaces have been realigned from support areas.

The Report of Audit 4165118, Accuracy of Air Force Manpower Requirements, focused on the use of manpower standards by commands in determining their manpower requirements. The Air Force Audit Agency examined the results of standards applications in 105 work centers in two major commands. The auditors did find cases where the requirements were in error; however, in numerous instances the requirements were understated when recomputed. As a result of the audit, the Air Force issued policy guidance to the major commands to strengthen application procedures and to report quarterly on the reapplication of manpower standards. In addition to annual application for manpower standards, the Air Force policy now calls for verification of a minimum of 20% of all workload data used, prior approval of waivers to exempt commands from specific standards applications, and command certification of the validity of exceptions to manpower standards. In March 1985, the Air Force Audit Agency acknowledged our actions as being responsive to the problem identified.

U.S. AIR FORCE IN EUROPE (USAFE)

Question. The fiscal year 1986 Department of Defense Appropriation Bill reduced the U.S. Air Force in Europe (USAFE) by $25 million. This reduction was designed to reduce support staff and streamline administrative headquarters activities in Europe. How has the $25 million reduction been executed? Has support staff been reduced? If so, by how many billets/spaces? Please provide the budgeted costs for fiscal year 1987. Please include all the Military Personnel and Operation and Maintenance Costs.

Answer. The $25 million USAFE reduction has been implemented. It was taken from operation and maintenance support funding.

We do not believe that USAFE administrative headquarters and support staffs are excessive. However, because of congressional interest we are reviewing headquarters support. We believe the following two initiatives will substantiate our requirements:

a. CINCUSAFE directed review of USAFE's management headquarters functional areas to ensure compliance with DOD Directive 5100.73 (DOD Management Headquarters and Headquarters Support Activities). Additionally, USAFE has begun a comparative analysis of USAFE and USAREUR Headquarters. The ultimate objective is to determine if we can further streamline our headquarters requirements and organizational structure.

b. USAFE participation with USEUCOM in a Senate Appropriations Committee directed study to be conducted by USEUCOM and the Defense Inspector General. The purpose of the study is to provide a detailed comparison of Army and Air Force manpower standards and funding requirements for the European theater. USAFE will participate in the study to insure the most comprehensive analysis is obtained. An interim report will be provided in August 1986.

The short reaction time since levying the reduction has not allowed us to complete these taskings. Also, because of the European Troop Strength ceiling and the continuing austere manpower environment, the Air Force continues to analyze all functional areas and manpower requirements to ensure the most efficient and effective utilization of today's limited resources.

The FY 1987 budgeted costs for USAFE are as follows:

	Thousands
Operation and Maintenance	$1,292,698
Military Personnel	1,904,617

FORCE DEPLOYMENT

Question. The Department of the Army reviewed the management of its mobilization efforts in its May 1985 Mobilization Functional Area Assessment, found problems, and required corrective actions to be taken. What are the major problems and what is the status of actions taken to date to resolve them?

Answer. During a six month period, culminating in May 1985, the Department of the Army conducted an internal review of its capabilities to mobilize the Reserve Component (RC) Forces. This analysis encompassed the major functional areas of mobilization, to include: peacetime preparations; actions on alert and assembly; movement to mobilization stations; and actions at the Mob Stations. The Functional Area Assessment (FAA) was a highly detailed and comprehensive analysis that validated the existing mobilization process as sound and supportable. While the Army identified no stoppers to our capability to mobilize the total force, the FAA served to highlight a number of procedural areas that require improvement or further analysis. Of specific interest in this regard were our personnel policies and procedures; the command and control of unit movements; our capability to redistribute resources to units mobilizing; the capacity of the training base to expand; our communications capability; and ammunition requirements.

In the personnel area, the FAA provided a focus on our utilization of Individual Ready Reservists (IRR). As a result, we are currently improving our peacetime management program for the IRR, and have instituted an annual screening process to improve our ability to match these resources against crisis requirements. Additionally, an enhancement program which supports the management, training and quality of the IRR has been developed and is in process of being implemented.

In response to our analysis of plans to move Reserve units from their home stations to their mobilization stations, we have instituted a nine state test of a movement control concept, using the National Guard State Area Command to coordinate convoy movements and interface with civilian agencies which can facilitate movement and control.

Analysis of our ability to redistribute resources during a mobilization to maximize deploying unit capability has produced a concept, now being tested, to automate listings of available equipment CONUS-wide, and listings of deploying unit equipment shortfalls. This automated capability, when established, will significantly improve our ability to plan for matching assets against requirements.

Our examination of the mobilization training base has resulted in institutionalizing a diagnostic process called the Training Base Capacity Study (TBCS). The TBCS is designed to isolate, over time, those critical resource shortfalls which limit the output capacity of the training base. In addition to improved management of the training base, this process has also identified a number of funding requirements, which have been included in our FY 87 to 91 program submissions.

It was recognized during the Mob-FAA that mobilized forces would require improvements to their secure voice communications capability. Selected semi-active and National Guard operated mobilization stations did not have a secure communications capability. Fixes in these areas have been programmed by the Army during the FY 87-91 POM period.

A complete review of training ammunition requirements is underway at this time as a result of the Mob-FAA. During the last six months the Army has developed post-mobilization training ammunition models for specific type units. These models identify a typical training ammunition requirement load for Army units to conduct minimum essential training tasks in CONUS before deploying overseas for wartime mission execution. The Army is continuing to work with both the Training and Doctrine Command and Forces Command to refine the model in order to improve our projections of total force training ammunition requirements.

Solutions to many of the Mob-FAA issues have been staffed and procedures for resolution adopted. Still other areas of concern require programing action and legislative support. Of the latter, one such bill has been forwarded for consideration by the Congress; this proposed legislation deals with a need for an increase in the Presidential Call-Up Authority (Title 10, USC 673B). The Army will conduct a follow-up review to the Mob-FAA during the May 1986 time frame.

Question. The Joint Deployment Agency (JDA), which reports to the Joint Chiefs of Staff, was established in 1979 to coordinate and monitor DOD deployment planning and execution. JDA was expected to have an automated system (Joint Deployment System) to enable it to support these duties by September 1985, but it will not be fully operational until 1989. Why is the Department of Defense working on an expanded computerized system (Joint Operation Planning and Execution System) which will incorporate JDA's system before the JDA system is operational? How does DOD plan to ensure that its new JOPES system will avoid the problems experienced in JDA's system?

Answer. JDA's system, fielded in September 1985, provides a baseline capability for deployment planning and monitoring. This baseline will continue to be enhanced to improve near-term capabilities not available from any other system. JOPES will integrate JDA's system and other deployment planning systems in a phased developmental approach designed to capitalize on technological improvements provided by new hardware and system software. The integrated deployment capability is scheduled for the first phase of JOPES and requires planning actions begin now. Follow-on phases of JOPES will support mobilization, sustainment, and employment information needs and will be much wider in scope than JDA's current system. These are not contained in the JDS. There is no need to wait for JDS to be fully developed before beginning to work on these areas.

JOPES development has and will continue to benefit from the progress and lessons learned from development of JDA's system. Numerous actions to gain community agreement on what capabilities JOPES is to provide have been undertaken. The JOPES Required Operational Capability (ROC) has been coordinated and approved by the Services and OJCS. In addition to the JOPES ROC, the functional capability to be provided by the first increment of JOPES has been documented in the JOPES Increment 1 Functional Description currently being staffed for OJCS and Service approval. A data requirements document, identifying what data and level of detail for those data, has also been prepared and will be staffed. Rigorous data administration policies and procedures have been established for JOPES and should result in a systematic, standardized, and coordinated development process. These steps should provide a basis for consensus regarding information requirements and data access.

Question. The Department of Transportation has maintained for some time that adequate commercial transportation exists to support mobilization. However, the Department of Defense still has not determined what the military requirement for commercial transportation is. What is the Military Traffic Management Command doing to determine military transportation requirements in the event of mobilization, and when will any such efforts be completed?

Answer. We agree that sufficient commercial transportation capability exists within CONUS to support mobilization. This assessment is based upon a review of all known DOD commercial lift requirements that were reported by the military services to MTMC in 1982. This data, in unclassified format, was provided to DOT, where it was found to represent less that 15 percent (rail) and 40 percent (truck) of the total CONUS commercial lift capability. MTMC is currently working with the Services and JCS to develop more sophisticated formatting techniques for identifying mobilization commercial lift requirements. MTMC estimates that by September 1986, the majority of the mobilization requirements tonnage data will have been reported for further analysis of actual commercial lift requirements.

Question. In the event of a major NATO conflict in Europe, U.S. troops could be flown in from the U.S. and equipped by distributing the four divisions sets of equipment (POMCUS) currently prepositioned at designated European storage sites. The equipment left in the U.S. by these units could then be redistributed to other mobilizing units, or used to replace items lost in combat (POMCUS unit redistribution of equipment program) (PURE). To what extent has the Army presently determined who will have ownership of this equipment, and what is the status of the system that will be used to redistribute it?

Answer. The Army has recently completed testing a combination of automated programs to plan the redistribution of available equipment in CONUS during mobilization. Included in this redistribution planning is the Prepositioned Overseas Materiel Configured to Unit Sets—Uncovered Residual Equipment (PURE). Equipment available for redistribution including PURE will generally be utilized to fill the deploying units as well as replace combat consumption. Planning is just being started using the automated systems to analyze which units and war reserve claimants will be designated to receive this equipment during mobilization.

Question. Mobilization would result in heavy military traffic on many of the nation's principal highways. The U.S. Army Forces Command is presently developing a computerized system called Mobilization Movement Control (MOBCON) to help plan, coordinate, and monitor unit movements after mobilization. How successful is MOBCON at performing these tasks, and when is it expected to be fully operational?

Answer. MOBCON is a FORSCOM initiative to establish a full time movement control planning cell in each State Area Command (STARC) using National Guard AGR personnel. Duties will include planning for the efficient use of state/federal highways by both Reserve and Active Component units under various mobilization scenarios, liaison with state offices to obtain convoy permits, and coordination with other MOBCON cells to facilitate crossage of state lines by military convoys. MOBCON will use the Mobilization Automated Support System (MASS), an automated convoy routing control and deconfliction model. Action is currently underway to initiate MOBCON in nine states in FY 86, with an incremental increase each fiscal year through FY 89 at which time it will be fully operational CONUS-wide.

AIR LOGISTICS COMMAND

Question. The Air Logistics Command is planning to build a $39 million weapons system command center at Kelly Air Force Base. When does the Air Force plan to build this command center? One of the selling points of this new center was that it would require 200 less people due to the efficiencies of operating one consolidated center. When do you plan to experience the savings of 200 people? Are these people civilian or military?

Answer. The Air Force will begin construction on the weapons system command center in early 1987. The manpower savings from this initiative (about 200 positions) will be realized in the early 1990s. The savings will be civilians.

MANPOWER REDUCTIONS AT AMC

Question. In fiscal year 1985, the Army Materiel Command exceeded its budget civilian employment level by 7,100. This was due mainly to the growth in temporary employment. What are the Army's and AMC's plans for reducing the employment levels? Will the reductions be made in permanent or temporary reductions? Please break this out by dollar and strength levels for fiscal years 1985–1989, and by installation.

Answer. Civilian employment within AMC will be managed within budgeted levels depicted below. At this point in time AMC is developing a strategy for implementing this employment guidance at installation level. Total Obligation Authority (TOA) for AMC has not been affected by this gradual reduction in total employment levels since it is expected that these gradual in-house reductions will be offset by an increase in contracting out efforts. Employment levels include all civilian personnel appointment categories, with no particular category targeted for a specific reduction.

FY 85 actual	117,949
FY 86 program	114,021
FY 87 program	109,643
FY 88 program	105,841
FY 89 program	105,676

Question. What have been the effects of the Gramm-Rudman-Hollings legislation on this schedule for employment reduction?

Answer. Civilian employment levels in programs subject to sequestration may decrease based on the degree to which the program is affected.

Question. How are these reductions being accomplished?

Answer. AMC's objective is to achieve these budgeted employment levels to the maximum extent possible through attrition, without resorting to layoff of permanent hires or premature release of temporary appointees.

Question. How is the workload being accomplished?

Answer. Workload is now and will continue to be accomplished through the use of both in-house personnel and contract capability. Increased emphasis will be placed on contracting, overtime, and productivity, with the objective of keeping combined in-house and contractor employment levels constant to the extent allowed by future funding.

Question. Is the depot maintenance workload scheduled to increase or decrease through fiscal year 1989? If scheduled to increase, how will the additional workload be accomplished?

Answer. The depot maintenance workload is scheduled to increase each year through fiscal year 1989. The additional workload will be accomplished through increased emphasis on contracting, overtime, and productivity.

Question. Is the depot maintenance workload underfunded in fiscal year 1987? If so, how much underfunded in terms of percentage and dollar levels?

Answer. Yes, the depot maintenance is underfunded in fiscal year 1987 by 5.5% or $93 million prior to the Gramm-Rudman decrement. The fiscal year 1986 Gramm-Rudman decrement will create an additional $104 million unfinanced requirement that will be carried forward into fiscal year 1987, so in fiscal year 1987, there will be $197 million or 11.5% underfinancing in the depot materiel program.

FY 1985 CIVILIAN MANPOWER EXPENDITURES

Question. The Department of Defense submitted a report entitled "Department of Defense Operations Without Civilian Ceilings, Fiscal Year 1985" on February 1, 1986. This report claims that due to the lifting of end strength ceilings in fiscal year 1985, Defense program managers were able to add and maintain civilians beyond planned levels. In fiscal year 1985 the Department exceeded its budgeted civilian strength total by 3.8%. The expenditures for civilian manpower in fiscal year 1985, exceeded the planned expenditures by $800 million or 2.6%.

Where did the $800 million come from? Was it taken from "lower priority" items?

Answer. In the case of the Department of the Navy, the $500 million expended for civilians in excess of budget plans was not taken from lower priority items. It was expended to accomplish budget programs as authorized by the Congress. Approximately $100 million of the increase occurred at the Naval shipyards while an additional $50 million was expended at ship repair facilities in the Western Pacific. These increases occurred because of revised fleet maintenance and support requirements and schedules. Financing came from FY 1985 funds for ship maintenance and overhaul (which are budgeted on a fully funded basis) as well as from work originally scheduled for contract. The rest of the increased civilian compensation expenditures resulted from decisions made by Navy and Marine Corps managers to accomplish work with civil servants instead of contractors. The Department of the Navy had instructed its managers that they should complete their work in the most economical and efficient manner possible. This led managers to compare the relative costs of performing various jobs with civil servants instead of contractors. In many instances the civil servants proved to be cheaper, particularly in scientific and technical areas. In these cases, assigning work to in-house organizations saved money while completing programs authorized by Congress.

In the Army, almost all of the $300 million in increased in-house civilian costs came from contracting funds. This additional funding for organic activities went for supply and maintenance workload due to delays in awarding contracts or contractor defaults.

Question. While you claim that the past practice of meeting an end strength constraint is both wasteful and disruptive, what would the costs have been in fiscal year 1985 to meet the budgeted end strength ceiling? Can the Department quantitatively prove that meeting a civilian end strength ceiling would have cost more than $800 million?

Answer. The unprojected increase in the Department's FY 1985 civilian employment costs went for congressionally authorized work that would otherwise have been done by contractors. The chief reasons for performing more work at organic facilities than budgeted was to save money or to complete work that could not be awarded to contractors in the time available or that had been defaulted under existing contracts. Meeting a ceiling in FY 1985 would have required using contractors in many cases where they were more expensive, thus directly adding to total costs. In addition, laying off people merely to meet an arbitrary year-end employment limit is in itself wasteful and disruptive. The Department estimates that discharging 41,000 workers, the number by which the Department exceeded its budgeted FY 1985 end strength, would have cost about $20 million.

Question. This report shows that the Army exceeded its planned civilian employment by 4.6%. The expenditures for civilian manpower in fiscal year 1985 exceeded the planned expenditures by $300 million or 3.3%. The Navy, however, experienced a 4.1% increase over planned employment levels and a $500 million increase in expenditures for civilian manpower in fiscal year 1985. Why are there inconsistencies between the Army and Navy costs associated with the change in civilian employment?

Answer. Because of the skills and grade levels involved, the increased civilian employment costs for the Department of the Navy were higher than for the Department of the Army. Much of the unprojected expenditures by the Department of the Navy went for the employment of relatively expensive scientists, engineers, and technicians with permanent appointments at Naval laboratories and engineering activities. On the other hand, nearly all of the additional personnel hired above the Department of the Army budget estimates were temporary hires who earn lower personal benefits than permanent appointees. Also, the vast majority of these temporary hires were in lower graded General Schedule and Wage Grade positions assigned to base operations and logistics activities.

Question. The February 1, 1986 report states that funds to pay for the Navy's additional employees came from workload that was projected to be performed on contract but was accomplished by federal employees.

Was the accomplishment of this workload by Federal employees due to the CSS limitation in fiscal year 1985?

Is it fair to say that the Navy needed $500 million in addition to its portion of the fiscal year 1985 CSS limitation, to support the CSS workload? Why was this funding left out of the CSS budget request?

Answer. Very little of the planned contract workload which was ultimately accomplished by the in-house civil service work force fell in the category of contractor support service (CSS). Three hundred million dollars of the growth in personnel costs occurred at industrial fund activities, which perform work ranging from pure research to depot level maintenance (which are not CSS categories). The CSS estimates which have been included in DoD budget requests, and the CSS limitation in FY 1985, did not apply to the industrial fund. Clearly, therefore, the $300 million growth in personnel costs at industrial activities was not related to CSS. Of the $200 million growth in nonindustrial fund activities, much of the effort consisted of functions which would fall into the Commercial Activities or other non-CSS categories. Of those efforts which did fall in the CSS category, much of the conversion to in-house performance was based on previously announced plans such as the effort to replace Contracted Engineering and Technical Services (CETS) "shipriders" with in-house technical personnel. Where other CSS type effort migrated in-house, the rationale was reduced cost rather than avoidance of the CSS limitation.

Question. Section Two of the February 1, 1986, report detailed the implementation of the prohibition on civilian ceilings during fiscal year 1985. In that description of the implementation the Department stated that the Defense Logistics Agency emphasized meeting efficiency goals rather than employment ceilings. The Department stated that if expected workloads did not materialize, positions were left vacant and the funds reapplied elsewhere.

What workloads did not materialize at DLA?

How many positions were left vacant?

What is the total amount of funds that were reapplied elsewhere and where were they reapplied?

Answer. During FY 1985, the only part of the Defense Logistics Agency with substantially lower than projected workload was "reutilization and marketing" or property disposal. Approximately 500 fewer than projected were employed in this area. Of the $25 million unspent here, about $9 million was reapplied to supply depot operations, about $4 million to material management, and about $3 million to procurement management. Approximately $8 million was unexpended for the agency as a whole.

INCREASED USE OF OVERTIME

Question. The Committee understands that the Services and Defense Agencies received guidance from OSD concerning the increased use of overtime. It is our understanding, that OSD directed the Service to increase the budgeted levels of overtime in preparation of the fiscal year 1987 budget. Is this correct?

Answer. The Services and Defense Agencies were directed to consider all manpower requirements from the perspective of lowest cost and most effective support of assigned missions. The OSD direction stated that "When more economical, DoD components should use overtime and temporary employees to accommodate workload surges." This was the guidance from OSD concerning the increased use of overtime.

Question. Why is OSD directing the Services to increase the budget for overtime? What is the total amount of increase that was directed for the Department of Defense, and for each individual Service? How were these overtime amounts determined?

Answer. There has been a built-in bias against the use of overtime throughout the Federal Government. Consumption of overtime in the private sector, presumably driven by the profit motive, ranges at around six to ten percent of total labor costs. Current DoD consumption of overtime is less than 3 percent of total labor costs. The Department does not incur retirement, training, or leave liability for overtime hours as it does for additional employees. In some cases, overtime consumption was based on ceilings as low as 1 percent rather than efficient resource utilization. The dramatic difference between the utilization of overtime between the private and Federal sectors indicates that there is a potential for the Department to achieve savings and avoid long term labor costs by using overtime as an efficient substitute for additional employes.

Question. Please provide a copy of this guidance to the Committee for the record.

Answer. A copy of the "FY 1986 Revised and FY 1987 Civilian Manpower Levels" guidance memorandum is provided for the record. This memorandum contains the guidance on the efficient use of overtime.

[The guidance follows:]

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-4000

FORCE MANAGEMENT
AND PERSONNEL

24 FEB 1986

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
DIRECTORS OF THE DEFENSE AGENCIES
DEPUTY ASSISTANT SECRETARY OF DEFENSE (ADMIN)

SUBJECT: FY 1986 Revised and FY 1987 Civilian Manpower Levels

Attached are the Military Service and Defense Agency revised civilian manpower employment estimates for FY 1986 and the programed civilian employment levels for FY 1987. These employment estimates reflect the resource decisions made during formulation of the FY 1987 President's budget. The estimates reflect the results of congressional lifting of statutory and administrative civilian end strength ceiling controls, the congressional freeze on DoD management headquarters, and all other civilian manpower adjustments. The Department's FY 1985 actual civilian manpower levels are also attached.

Section 501 of the FY 1986 DoD Authorization Act (P.L. 99-145) waived the requirement for a statutory civilian personnel end strength authorization for FY 1986. Section 502 of the same Act prohibits the management of Department of Defense civilian personnel by end strength constraints. Section 8048 of the FY 1986 DoD Appropriations Act (P.L. 99-190) contained similar language and also directed the Department to prepare its FY 1987 budget request as if this authority will be extended through FY 1987. Accordingly, the resources identified in this memorandum are identified as civilian manpower estimates.

This legislation again allows the Department the unique opportunity to match civilian manpower levels to funded workloads and mission requirements. However, the freedoms afforded by the flexibility of ceiling-free management also entail specific responsibilities. Defense Department managers have the obligation to manage their resources in a prudent, effective manner. I want to emphasize that the Department of Defense cannot afford to staff for peak workloads. When more economical, DoD components should use overtime and temporary employees to accommodate workload surges. Each DoD manager must review all manpower requirements from the perspectives of lowest cost and most effective support of assigned missions. The civilian manpower estimates attached to this memorandum show significant decreases from actual FY 1985 levels. DoD managers must demonstrate that flexibility to match workforce levels with funded workloads applies when workloads are declining as well as expanding. The FY 1986 DoD Appropriations Act, as well as the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L.

99-177) will both result in additional adjustments to funded workload levels of the Military Departments and the Defense Agencies. To the extent that future adjustments to funded workloads and mission requirements require reductions in personnel costs, hiring plans should be adjusted promptly to achieve maximum savings through normal attrition. Hiring freezes or selective hiring restrictions should be imposed as appropriate. If necessary, short term furloughs may be implemented if attrition and hiring restrictions do not yield sufficient savings. We should avoid reductions-in-force whenever possible.

With the start of the presentation and justification phase of the FY 1987 budget cycle, I want to stress the importance of supporting the resource levels requested in the President's budget submission. I also want to stress the importance of using management initiatives, such as efficiency reviews, productivity enhancing capital investments, commercial activity reviews, work force motivation efforts, position management, temporary or part-time appointments, overtime flexibilities, and other productivity improvement efforts to ensure that the Department accomplishes its missions in the most effective manner and at the lowest cost. These ongoing DoD management initiatives also support President Reagan's recent initiative to improve productivity in the Federal Government. Each manager at each level must use these tools to improve productivity and achieve maximum Defense capability within available resources.

Chapman B. Cox

Attachment

Department of Defense
Civilian Manpower Employment Estimates
FY 1987

	Total Direct Hire	Indirect Hire	Total
Army	349,261	61,263	410,524
Navy	329,709	10,784	340,493
Air Force	249,975	13,327	263,302
DARPA	125		125
COMM/INTEL	5,895	10	5,905
DCAA	6,456	5	6,461
DIS	4,580		4,580
DLSA	112		112
DLA	52,884	882	53,766
DMA	9,400	2	9,402
DNA	839		839
DSAA	115		115
JCS	354	1	355
JTC^3	245		245
OIG	1,514		1,514
OSD	1,307		1,307
SDIO	130		130
USUHS	810		810
DoD Field Activities	13,681	950	14,631
Total	1,027,392	87,224	1,114,616

DoD Field Activities are:
- WHS
- AFIS
- DoDDS
- DISA
- DMSSC
- DTSA*
- CHAMPUS
- OEA
- CMA

The figures above include the following functional transfers:

Function	Army	Air Force	DLA
DAVA disestablishment		-2	+2
Burtonwood, UK Commissary	-6	+6	

* DTSA mix between military and civilian manpower may be further revised.

Department of Defense
Civilian Manpower Employment Estimates
FY 1986

	Total Direct Hire	Indirect Hire	Total
Army	352,307	60,165	412,472
Navy	329,982	10,779	340,761
Air Force	248,639	13,105	261,744
DARPA	125		125
COMM/INTEL	5,459	10	5,469
DCAA	4,849	5	4,854
DIS	4,497		4,497
DLSA	112		112
DLA	51,265	882	52,147
DMA	9,300	2	9,302
DNA	801		801
DSAA	115		115
JCS	348	1	349
JTC^3	236		236
OIG	1,132		1,132
OSD	1,307		1,307
SDIO	110		110
USUHS	810		810
DoD Field Activities	12,911	950	13,861
Total	1,024,305	85,899	1,110,204

DoD Field Activities are:

- WHS
- AFIS
- DoDDS
- DISA
- DMSSC
- DTSA*
- CHAMPUS
- OEA
- CMA

The figures above include the following functional transfers:

Function	Army	Air Force	DLA
DAVA disestablishment		-2	+2
Burtonwood, UK Commissary	-6	+6	

* DTSA mix between military and civilian manpower may be further revised.

Department of Defense
Civilian Manpower Employment
FY 1985 Actual

	Total Direct Hire	Indirect Hire	Total
Army	359,078	60,893	419,971
Navy	342,420	10,440	352,860
Air Force	250,400	13,468	263,868
DARPA	105		105
DAVA	234		234
COMM/INTEL	5,143	10	5,153
DCAA	4,636	5	4,641
DIS	3,520		3,520
DLSA	70		70
DLA	50,678	890	51,568
DMA	9,076	2	9,078
DNA	748		748
DSAA	102		102
JCS	310	1	311
OIG	1,002		1,002
OSD	1,194		1,194
SDIO	49		49
USUHS	795		795
DoD Field Activities	13,082	797	13,879
Total	1,042,642	86,506	1,129,148

DoD Field Activities are:
- WHS
- AFIS
- DoDDS
- DISA
- DMSSC
- DTSA
- CHAMPUS
- OEA
- CMA

UNEMPLOYMENT COMPENSATION

Question. Since fiscal year 1982, this Committee has expressed concern that unemployment compensation for nonappropriated fund employees should not be funded with appropriated amounts. In FY 1986, this Committee not only directed the Department of Defense to pay unemployment compensation for nonappropriated fund employees out of nonappropriated funds, but also reduced the operation and maintenance accounts by $4,534,000.

Has the fiscal year 1986 budget been executed as directed by the Committee, with the payment of nonappropriated fund unemployment compensation out of the correct account?

Answer. The FY 1986 budget is being executed as the Committee directed. As of October 1, 1985, all unemployment costs for nonappropriated fund employees are being paid from nonappropriated funds.

Question. Has the fiscal year 1987 budget been prepared as directed by the fiscal year 1986 DoD Appropriation Bill report?

Answer. Yes it has. Unemployment costs for nonappropriated fund employees will be paid from nonappropriated funds in FY 1987.

Question. What are the fiscal year 1987 budget amounts for unemployment compensation? Please break this out by Service and by appropriated amounts and nonappropriated amounts. Please compare this with fiscal year 1985 and 1986 programs.

Answer. The unemployment compensation amounts, appropriated and nonappropriated, are as follows:

[In millions of dollars]

	Appropriated	Nonappropriated	Total
Fiscal year 1985:			
Army	22.7		22.7
Navy [1]	2.5		2.5
Air Force	11.2		11.2
Total	36.4		36.4
Fiscal year 1986:			
Army	16.5	2.0	18.5
Navy [1]	[illegible]	1.2	8.1
Air Force	8.4	2.5	10.9
Total	31.8	5.7	37.5
Fiscal year 1987:			
Army	25.9	2.1	28.0
Navy [1]	12.9	1.2	14.1
Air Force	8.4	2.5	10.9
Total	47.2	5.8	53.0

[1] Includes Marine Corps. The appropriated funds are Operation and Maintenance appropriations only.

NAVY'S USE OF CONTRACTOR PERSONNEL

Question. The Committee's Surveys and Investigation staff recently filed a report on DOD's use of contractor personnel. The concern of the Committee was that contractor personnel might be working alongside Defense employees and may be overseeing progress payments to their employers. The S&I staff found that only one DOD component had contractors working side-by-side with civil service employees—the SUPSHIP office at Bath, Maine where 32% of the work force were contract employees virtually indistinguishable from civil service employees.

The S&I team discovered that this irregularity has been pointed out in the past, but nothing has been done. Why?

Answer. The contractor personnel on site at SUPSHIP Bath are there in direct support of ongoing new construction programs. The reported irregularity in the use of these personnel was identified by the SUPSHIP Operations Review Team (SORT) during its visit to SUPSHIP Bath 29 May–6 June 1985. The SUPSHIP was directed to rectify the situation and plans to do so were underway when the HAC (S&I) visited the SUPSHIP on 12 June 1985 and subsequently reported this irregularity.

Question. Does the Navy plan to correct this situation?

Answer. Since the irregularity in use of contractor personnel was highlighted to SUPSHIP Bath, definitive actions to ensure their proper use have been taken. Civil service and contractor personnel were provided training regarding employer-employee relationships between government and contractor personnel. All but 16 contractor personnel have been removed from SUPSHIP spaces and the remaining individuals have been clearly segregated into separate offices.

Question. Officials at SUPSHIP cite "insufficient personnel ceilings" for their use of contractor personnel. Since there are no congressionally mandated civilian ceilings, what manpower ceilings are referred to in this comment?

Answer. The manpower ceilings referred to by this command are primarily monetary. While there are no numerical end-strength ceilings imposed on NAVSEA the available funding will dictate the number of workyears and resulting level of employment to perform SUPSHIP mission functions. However, the contractor personnel referred to above were not performing SUPSHIP mission functions.

Question. Do these contractor support costs appear in the PB 21 and 25 budget exhibits for FY 85, 86, and 87? If not, why?

Answer. The contractor support at SUPSHIP Bath is related to the FFG and CG programs. Support costs for the FFG 7 Class Guided Missile Frigate Program would not appear for these fiscal years because only prior year appropriations are involved. The last FFG 7 Class ship to be funded was in FY 84. In the event the question was intended to include prior-year funding, the answer would still be negative because these support costs were determined not to be Contractor Support Services (CSS) by the Principal Contracting Officer and classified primarily as production engineering, management engineering, and data processing services. Support costs for the CG–47 program were included in the PB 21 and 25 budget exhibits where they fit the definitions of Contractor Support Services used in formulating these exhibits.

Question. What were the total costs for acquisition support contracts in fiscal years 1983–1986? What account are they found in? What is in the FY 1987 budget for acquisition support contracts?

Answer. Based on the context of the question, acquisition support contracts are understood to be professional management and engineering services, including preparation of reports or documentation, software development, development of logistics support plans, as well as production engineering, related to the Navy shipbuilding program and financed within the Shipbuilding and Conversion appropriation. Consistent with the acceleration of the Navy shipbuilding program, the value of such services identified in the most recent applicable PB 21 and 25 exhibits was $37,283,000 in FY 83, $85,415,000 in FY 84, $79,721,000 in FY 85, and $80,554,000 in FY 86. A comparable figure for FY 87 is not available because the estimates which are being prepared for FY 87 reflect a more comprehensive effort to account for and describe the full CSS requirement based on expanded definitions, in accordance with Congressional guidance.

Question. The S&I staff also stated that in fiscal year 1985, the Naval Underwater Systems Center (NUSC) took a "close look" at its existing support service contracts, in response to the $1.3 billion cap, and recorded a majority of them as non-support service contracts. Before this "close look," 75% of NUSC's contracts for support services, after recoding, the percentage dropped to 20–25%.

Was it this type of recording that allowed the Navy to meet its portion of the $1.3 billion cap on Contract Support Services?

Answer. The Department of the Navy administered its share of the $1.3 billion limitation on the obligation or expenditure of FY 85 appropriated funds based on whether the contractual effort being procured conformed to the definitions of Contractor Support Services (CSS) used in formulating its budget estimates in the PB 21 and PB 25 exhibits. The Department specifically disallowed circumvention of the CSS limitation by stating in its policy that the Federal Procurement Data System (FPDS) code assigned to a contract had no bearing on whether or not contract effort was subject to the limitation. The nature of the effort being performed was the sole determinant of the applicability of the CSS limitation.

Question. How could these contracts be coded as support services one day and non-support services the next?

Answer. In mid FY 85 NUSC discovered that all service contracts were being incorrectly coded as Contractor Support Services (CSS). When NUSC detected the error they took action to correct the coding in accordance with guidance for the Federal Procurement Data System, which resulted in only about 25 percent of their service contracts being coded as CSS. The recoding, however, had no bearing on the applicability of the CSS limitation at NUSC.

Question. In fiscal year 1985, the Navy contracted for 242 Logistic Support Representatives (LSR), whose function is to provide an interface with the prime manufacturer's supply system. Fleet personnel, however, attributed the use of LSR's aboard aircraft carriers to a shortage of qualified male aviation storekeeper personnel eligible for sea duty aboard combatant ships. LSR's were also found to be operating "bond rooms" aboard aircraft carriers from which they issued spare parts to embarked squadrons, with payment in the form of a like item procured by the Navy.

What is the rationale for the use of LSR's?

Answer. The question posed by the committee regarding the use of contracted logistics support representatives (LSR's) by the Navy indicates a misunderstanding on their part of the Navy's purpose and procedures for contracted LSR support. The time period between the introduction of a new weapons system to the operating Fleet and Navy's capability to fully provide organic logistics support is known as the "interim support period." During this period, Navy has not usually developed in house maintenance capability, does not possess required support equipment, has minimum training and experience on the new system, has not provisioned spares and repair parts, and must rely heavily upon prime contractor maintenance and material support. Consequently, the primary purpose of contracted LSR's is to provide the best available technical expertise and the only source of material supply during this period which normally lasts for two to three years.

Question. Why do they sell items to the Navy from rooms on board underway carriers?

Answer. The bond rooms mentioned by the committee are not necessarily afloat, but are optimally located to best support fleet deployments and site stand-ups. The spares and repair parts issued by LSR's from these bond rooms are owned by the Navy and are the only source of material support since the Navy supply system cannot respond during this interim period. The bond rooms are managed by LSR's—Technicans who have early acquisition (contractor development) knowledge, experience and expertise.

Question. If the items are needed, why are they purchased with a trade of a different part? Why can't the purchase take place by voucher with a cash payment by the Navy when the voucher is presented at the completion of the tour?

Answer. The bond room items are not sold to the Fleet users. They are procured with Navy appropriated initial spares and repair parts funding and placed under contractor bond room inventory control (LSR's). They are free issue to fleet users during this period. However, if the item is repairable (vs throw-away upon failure), the Navy requires a one-for-one turn-in of the failed unit. LSR's afloat provide technical knowledge of spares and repair parts requirements, not yet available to Fleet personnel. They can identify not yet stock-numbered parts, provide replacement from bond rooms or commercial repair sources, and provide work arounds for lack of proper support/test equipment and fully trained Navy maintenance personnel.

Question. Contract Engineering and Technical Services (CETS) are considered essential to the maintenance of weapon systems readiness by each of the military services. Their essentiality is due to low skill levels of military personnel, short duty tours overseas, European troop strength limitation, and the lack of complete technical publications and manuals. The S&I staff discovered that the Navy and Air Force do not have complete control over the employment of CETS in their respective service.

The insertion of contractors by various sponsors make it impossible for theater commanders to have control over the numbers of contractors in their jurisdication.

What can be done to strengthen the control of theater commanders over the number of contractors in their jurisdiction?

Answer. Theater commanders have control over the contractors in their jurisdiction. Visibility of the numbers of contractors can be provided through the theater commanders logistics staff, co-located systems command representatives, etc.

Question. How many CETS are currently used by the Army, Navy, Marine Corps, Air Force and Defense Agencies? What are the contract cost for these CETS?

Answer. In FY 84 CETS staffing and costs were estimated as follows: Army—220 man-years, $29M; Navy/Marine Corps—1604 man-years, $138M; Air Force—526 man-years, $50M.

INSPECTOR GENERAL EFFICIENCY REVIEW RECOMMENDATION

Question. The Department of Defense Inspector General submitted a report on the audit of the DoD Efficiency Review Program, dated November 8, 1985. This report stated that while the Army, Navy and Air Force had implemented procedures for performing efficiency reviews that generally complied with DoD guidance, not all of the reported savings could be attributed to the efficiency review program. The review of $35.4 million of the $39.4 million in reported savings, disclosed that $24.1 million should not have been reported until the savings were realized, and that $9.6 million was not attributable to the efficiency review program. Therefore, manpower reductions from the efficiency review program reported to Congress have not been accurate.

The Inspector General made two recommendations for the Assistant Secretary of Defense (Force Management and Personnel). One was the issuance of definitive guidance setting forth the efficiency review criteria of savings and the second was to make a determination as to whether the Defense Logistics Agency manpower cost avoidance should be reportable under the DoD Efficiency Review Program. Has the Department implemented these recommendations?

Answer. The DoD Instruction on Efficiency Review is being revised to provide more definitive and consistent guidance for reporting savings. Issuance of the revised Instruction is expected by late summer.

Question. If so, please provide the Committee with the results.

Answer. The determination has been made that the Defense Logistics Agency manpower cost avoidance resulting from efficiency review is reportable as savings under the DoD Efficiency Review Program. This will be clearly indicated in the revised Instruction on Efficiency Review being prepared.

CONTRACTING OUT

Question. In 1985, the Department submitted an analysis of 235 A-76 contracts awarded during fiscal years 1981 and 1982. This report stated that of the 9,650 civilian employees involved in the 235 A-76 competitions, 615 or 6% were separated from the Department as a result of contracting-out.

How can the Department claim that there is a savings to the government when the performance of a certain function is awarded to a contractor, when approximately 94% (excluding retirees) stay with the Federal government? In fact, does not the government experience an increase in cost considering there is now a contract to be paid and 94% of the government employees remain on the payroll?

Of the Department of Defense employees that remain with the government after their jobs have been contracted out, how many remain with the Department of Defense?

Answer. The Department hires approximately 150,000 employees annually to fill vacancies. Vacancies occur because of retirements, resignations, promotions, changes in workload, and validated new requirements. In addition, many installations freeze permanent hiring before an A-76 study is completed in order to ensure that vacancies will be available for employees affected by a contracting-out action. In these situations, temporary employees are utilized to fill vacancies. Consequently, the savings projected are realized. DoD employees are placed in other vacant government jobs as a result of our extremely effective DoD Priority Placement Program. Our report to Congress and a recent GAO audit have confirmed the effectiveness of these placement efforts. We do not maintain data on how many employees have remained with the DoD.

Question. On April 15, 1985, the General Accounting Office submitted a report on "DoD functions contracted out under OMB Circular A-76: contract costs increases and the effects on Federal employees." This GAO report stated that while projected savings were realized, there were reduced savings due to contract errors or ambiguities and additional costs resulting from recompeting contracts. Contract errors or ambiguities generally resulted from inadequate statements of work. What has the Department of Defense done to correct the inadequacies of the statements of work for A-76 contracts?

Answer. The Military Services and Defense Agencies utilize guideline specifications to ensure that all necessary contract clauses are continued in each A-76 contract. Where we have gained experience that results in improved contract clauses, those are added to the guideline specifications. The problems cited by GAO fall into the category of incomplete or unspecific descriptions of the work to be performed at the local activity which necessitate changes to the local contract. By their very nature, these are case-by-case problems that can only be corrected at the local level. We continually stress the need for adequate resources and training to ensure that A-76 studies are quality products. Training courses for DoD employees conducting these studies are available and are extensively utilized.

Question. A separate, though related, problem that has surfaced recently is the Department's lack of follow-up data on A-76 contracts that were awarded early in the A-76 program. Due to a variety of reasons, the Department is unable to track costs and associated savings with A-76 contracts that were awarded in the early stages of the program. What has the Department done to correct this inadequacy?

Answer. The Department has tracked and reported to Congress the costs and associated savings for all A-76 contracts awarded during FY 1981 and FY 1982. On April 15, 1986, the Department is required to report on the costs and associated savings for all A-76 contracts awarded during FY 1984. Last September, the Department required the Military Services and Defense Agencies to regularly report the actual costs of future A-76 contracts for the three-year period associated with each original A-76 estimate.

DOD COOPERATIVE EDUCATION PROGRAM

Question. In fiscal year 1985, the Congress lifted ceilings on the DoD cooperative education program, however, expressing concern that the Department might abuse the program. The Conferees directed that the program should be limited predominately, but not exclusively, to recruitment of students pursuing scientific and technical career fields. The Congress also extended the program to include graduate students. How many cooperative education students were employed by the Department of Defense in fiscal year 1985?

Answer. The total for fiscal year 1985 was 5,457 students.

Question. How many of these students had scientific or technical career fields in their background?

Answer. The number with scientific and technical background was 4,525.

Question. How many of these students were in administrative fields?

Answer. 932 were in administrative fields.

Question. How many of these students were graduate students?

Answer. 80 were graduate students.

Question. Please provide a break out of the cooperative education students hired in fiscal year 1985 by Service component or Defense agency and the funding required by each component or agency.

Answer:

[Dollars in thousands]

DoD component	Coop students	Funding required
Army	1,595	$9,570
Navy	2,117	12,702
Air Force	1,472	8,832
Defense Logistics Agency	214	1,284
Defense Mapping Agency	11	66
Defense Communications Agency	1	6
Defense Contract Audit Agency	22	132
DoD Inspector General	25	150

Question. What is the hiring plan for the cooperative education program in fiscal year 1987?

Answer. The cooperative education program is an important and recognized source of high-quality candidates. The Services and Defense agencies plan to continue using it through fiscal year 1987 at about the same levels shown for fiscal year 1985.

Question. Is there any hiring plan specifically for students in the scientific and technical career fields. If so, how many do you plan to hire?

Answer. Cooperative education program plans of the Services and Defense agencies will continue to emphasize scientific and technical occupations. We expect that within the total of 5,755 students, 4,730 will be in scientific and technical fields.

Question. Please break out the hiring plan by Service component or Defense agency.

Answer. The Services and Defense agencies expect to pursue the following coop program employment levels for fiscal year 1987:

DoD Component	Scientific and Technical	Administrative	Total
Army	1,200	450	1,650
Navy	2,000	250	2,250
Air Force	1,300	200	1,500
Defense Logistics Agency	200	75	275
Defense Mapping Agency	20	0	20
Defense Communications Agency	5	0	5
Defense Contract Audit Agency	0	25	25
DoD Inspector General	5	25	30

Question. What is the funding required for the cooperative education program in 1987?

Answer. Total funding required is $34.5M, most of which is to provide salaries during work periods.

FEDERAL JUNIOR FELLOWSHIP PROGRAM

Question. Does the Department of Defense still appoint Federal Junior Fellows? Please provide the status of this program for fiscal years 1985 through 1987 in terms of funding and employment levels.

Answer. Total employment of Federal Junior Fellows by all DoD components in fiscal year 1985 was 1,286 at a cost of $5.1M. We expect to maintain this program at the same employment and funding levels for fiscal years 1986 and 1987.

FREEZE ON HIRING CIVILIAN EMPLOYEES

Question. On January 27, 1986, the Navy informed Congress that it was imposing a freeze on hiring new civilian employees for several major commands. This was done primarily to limit the expenditures of the Navy until the full effects of the balanced budget and emergency control act could be assessed.

Have the other Services and Defense agencies instituted similar hiring freezes?

How much money does the Navy intend to save due to this freeze? Have the other Services computed the cost savings?

Answer. In the other Services, only the Air Force's Systems Command has a hiring freeze. There are not agency-wide hiring freezes in the Defense Agencies. The purpose of the selective hiring freeze imposed by the Department of the Navy is not to save a specific amount of money, but to instill discipline in the execution of its approved FY 1986 program. The freeze has been imposed on those major commands where it is considered necessary to ensure that spending for civilian employment is brought within the levels of approved funding. The need to do this is particularly acute in view of the funding reductions resulting from the Balanced Budget and Emergency Deficit Control Act. By controlling civilian manpower costs, the Navy intends to accomplish as much of the approved

Fiscal Year 1986 budget program as possible. Imposition of a hiring freeze now also minimizes the risk of more severe and disruptive personnel actions later in the fiscal year, such as separations or furlough. The other Services have not projected the costs or savings from freezing civilian employment. If the other Services did selectively freeze their civilian employment levels, their intent would be to instill discipline in the system by forcing selected activities to balance available resources to funded workloads.

Question. Since the removal of end strength ceilings, the Services and Defense Agencies should be hiring personnel based on workload projections. It is probably correct to assume that workload has not decreased in fiscal year 1986 and must be completed somehow. How is the Navy accomplishing its increased workload with fewer than anticipated civilian workyears? How are the other Services accomplishing their increasing workloads with fewer than projected civilian employment levels?

Answer. The manpower estimates for FY 1986 which the Department of the Navy has included in the FY 1987 President's Budget represent a balance between program workload and the work force. Therefore, workyears reflected in the budget are sufficient to complete the workload. The Navy has been able to provide for its requirements by continuing its aggressive pursuit of manpower economies and efficiencies, with major savings attributable to the Commercial Activities and Efficiency Review Programs. The FY 1986 estimates incorporate actual savings achieved under the CA Program of some 1,600 positions. The estimates also incorporate projected savings under the Efficient Review Program of about 900 in FY 1986. The end strength estimates for industrial fund activities incorporate further reductions of 1,500 positions in FY 1986 associated with Navy initiatives to improve efficiency and productivity in industrial fund operations. The Department's estimates also incorporate manpower increases made necessary by accomplishing additional work in -house, at reduced costs, based on the FY 1985 experience. The work force projections for FY 1986, which include all of the adjustments above, are in balance with workloads and are lower than the FY 1985 actual end strength. Other DoD components have not instituted civilian hiring freezes unless projected civilian employment levels in specific activities exceeded funded workloads.

CONVERSION OF MILITARY BILLETS

Question. For fiscal years 1984 and 1985, please provide the budgeted and actual number of military billets that were converted to civilian spaces. Please provide the budget and estimated figures for 1986 and the budgeted conversions for fiscal year 1987. Please break this out by Army, Navy, Marine Corps and Air Force and by appropriation.

Army answer. For the Army, the requested breakout is as follows:

	1984	1985	1986	1987
OMA	1,847	1,529	772	2,809
AFH	10	0	0	15
RDTE	20	15	35	61
AIF	0	0	20	80
MAP	0	0	2	0
OMAR	90	163	3	38
Total	1,967	1,707	832	3,003

Note: For fiscal year 1984 and fiscal year 1985, the budgeted and actual numbers are the same. In fiscal year 1986, the budget and estimated figures are identical as well.

Navy answer. The following table depicts the number of military billets within the Military Pay Navy appropriation that have been adjusted incident to conversion to civilian spaces during the period FY 1984 to FY 1987. These conversions reflect a concerted effort by Navy to provide for the most cost-effective utilization of available manpower resources and, at the same time, permit the reassignment of trained military personnel to more direct, readiness-related requirements. Conversion of military billets to civilian positions is accomplished by means of dedicated civilian substitution efforts, contracting out of prior military functions, and through efficiencies generated by ongoing productivity programs including the Commercial Activities (CA) Program. As directed by the Congress, savings derived by the CA Program which may also result in the conversion of military spaces are not budgeted in advance of study completion. As has been customary, military billets saved by the conversion process will be redirected to essential fleet operating forces and activities.

Fiscal year 1984:	
Budget	629
Actual	768
Fiscal year 1985:	
Budget	649
Actual	1,527
Fiscal year1986:	
Budget	926
Actual	1,226
Fiscal year 1987: Budget	2,421

NOTE.—Totals shown reflect annual conversions; cumulative conversions from fiscal year 1984 to fiscal year 1987 should approximate 6,000 military spaces.

Marine Corp answer. Minimal conversions from military to civilian/contractor in commercial activities were completed in fiscal years 1984 and 1985. In fiscal year 1986 we project completing 557 of the 892 budgeted. In fiscal year 1987, 104 are budgeted.

Air Force answer. Due to ceiling constraints, no conversions were projected for FY 84. In FY 85, 270 conversions were budgeted. We do not track actual conversions made at the local level within available funds and employment ceilings. In FY 86, after civilian employment ceilings were lifted, the Air Force budgeted 2,600 conversions. In FY 87, an additional 300 have been projected. All of these actions have been taken within the Operation and Maintenance appropriations.

DOD PROPOSAL TO SET PAY SCALES

Question. The Committee understands that the Office of Personnel Management (OPM) is studying a Defense Department proposal that would allow Federal agencies to experiment with a pay system that would base civil service grade salaries on performance rather than the current grade scales. Please provide this Committee with an update on the DoD proposal and the current OPM review.

Answer. Under an authority established by the Civil Service Reform Act, the Department of the Navy has been experimenting since 1980 with some major modifications to the civilian personnel management system. The experiment is designed to demonstrate that the effectiveness of Federal laboratories can be enhanced by developing an integrated approach to pay, performance appraisal, and position classification which allows greater managerial control over personnel functions.

Because of the early success of the experiment and a long-recognized need to improve the existing system, the Department has developed a proposal to allow the concepts involved to be expanded to other organizations. This proposal, along with other proposals to establish alternative personnel systems, is currently under consideration by the Domestic Policy Council. The Domestic Policy Council is pursuing this effort through a working group under the direction of Office of Personnel Management Director Horner. The working group is in the final stages of its review and development of recommendations. When these recommendations are presented to the Domestic Policy Council, we expect that an Administration position will be decided upon.

PRODUCTIVITY ENHANCEMENT

Question. Please provide this Committee with information on the use of the Deming process at the North Island Rework Facility. This information should include a history on the use of the Deming process and the cost savings that has been realized or are projected.

Answer. The first systematic attempt to implement a Quality Management (QM) program within Navy began in February 1984 in the Components and Metal Division of the Production Department at the Naval Air Rework Facility, North Island, California, (NARF-NI). The work is a joint project between the NARF-NI and the Navy Personnel Research and Development Center (NPRDC), San Diego, California.

The implementation strategy used for the pilot program at NARF-NI involved a series of events that revolved around education and training—education being the introduction of employees to the concepts and philosophies associated with QM and training being the application of QM in the workplace.

The pilot program was concluded in December 1985. A preliminary cost analysis shows that the return on investment was recouped in three months. This program resulted in higher quality, greater productivity, and increased customer satisfaction.

In January 1986 this program was expanded to eight other Divisions within NARF-NI. The managers of these Divisions are currently undergoing training.

Question. Please provide this Committee with the most recent Department of Defense directives on productivity enhancing capital investment program.

Answer. A copy of DoD Instruction 5010.36, "Productivity Enhancing Capital Investment," dated December 31, 1980, is attached as required.

[illegible]
NUMBER 5010.36

Department of Defense Instruction

ASD(MRA&L)

SUBJECT: Productivity Enhancing Capital Investment

References:
(a) DoD Directive 5010.31, "DoD Productivity Program," April 27, 1979
(b) DoD Instruction 5010.34, "Productivity Enchancement, Measurement, and Evaluation - Operating Guidelines and Reporting Instructions," August 4, 1975
(c) ASD(MRA&L) Memorandum "DoD Productivity Enhancing Capital Investment (PECI) Program - Fiscal Year 1979," November 11, 1978 (hereby canceled)
(d) through (s), see enclosure 1

A. PURPOSE

This Instruction establishes policy and prescribes procedures for the DoD Productivity Enhancing Capital Investment (PECI) program; incorporates changes resulting from the revision of reference (a); includes requirements established by Congress; complies with the provisions of the Federal Productivity Program established by the Office of Personnel Management (OPM); consolidates guidance contained in references (b) and (c); and assigns responsibilities for the overall administration of the program. Reference (c) and enclosure 2 to reference (b) are hereby canceled.

B. APPLICABILITY AND SCOPE

1. The provisions of this Instruction apply to the Office of the Secretary of Defense (OSD), the Military Departments, the Organization of the Joint Chiefs of Staff, and the Defense Agencies (hereafter referred to as "DoD Components").

2. These provisions encompass the acquisition or lease of equipment and facilities to improve the productivity of defense activities. This includes major facilities, equipment or process modernization efforts, as well as efforts to improve the performance of individual jobs, tasks, or operations.

3. Investments at government-owned, contractor-operated (GOCO) facilities are excluded from the provisions of this Instruction.

C. DEFINITIONS

Terms used in this Instruction are defined in enclosure 2.

D. OBJECTIVES

The objectives of the DoD PECI program are to:

1. Improve the efficiency and effectiveness of defense organizations and activities by encouraging the application of capital equipment and facilities to improve methods of operation.

2. Increase the level of consciousness among defense managers of the potential for productivity improvement through capital investments.

3. Promote the substitution of capital for labor as a means of optimizing the output of the defense work force.

E. POLICIES

1. Managers at all levels shall be encouraged to aggressively seek out and identify opportunities for PECI and be supported in their efforts to finance and acquire these investments.

2. The PECI program is an element of the DoD Productivity Program established by DoD Directive 5010.31 (reference (a)). PECIs shall be made in consonance with other productivity efforts and shall be an integral part of DoD Component investment planning.

3. PECIs shall be carried out within restrictions established by public law, DoD policies, and other regulatory constraints.

4. Capital-labor substitution through productivity enhancing investment and leasing actions shall be exploited as a primary means for improving the labor productivity of defense organizations and operations.

5. OSD-established PECI funding procedures focus upon financing those projects that substitute capital for labor. DoD Components are encouraged to establish complementary programs to finance other deserving PECI projects.

6. Top priority shall be given to those potential investments that amortize in the shortest period of time and those with the highest potential internal rate of return (IRR) on investment or highest net present value (NPV). For projects having identical IRRs or NPVs, proposals will be ranked for financing in the following order of priorities:

a. Projects that save whole personnel spaces or authorizations that can be reapplied at the local level.

b. Projects that save whole personnel authorizations that cannot be reapplied to perform other valid requirements at the local level, but can be reallocated to other activities as priorities dictate.

c. Projects that avoid overtime personnel costs or release work hours and personnel to be reapplied to other uses.

d. Projects that save consumable materials.

e. Projects produce other cost savings which can be reapplied to valid unfinanced requirements.

7. Productivity enhancing capital equipment and facilities shall be leased rather than purchased when such action is cost effective or appropriate. Leasing is particularly appropriate for areas of fast changing technology or when workloads are expected to cease before the end of the program period. Leasing may also be used as a means of obtaining near-term benefits from productivity improvement opportunities until sufficient data to verify the benefits of procurement can be developed.

8. DoD Component PECI programs shall provide incentives for program participation at all levels. As an incentive to identify PECI opportunities, the reuse of all or part of the benefits from PECI should be permitted where practicable. Benefits may be used to reduce backlogs without reducing resources, either to reduce resource requirements in annual budgets, or to support valid unfunded requirements during the operating budget year. Reuse should be at the level that creates an incentive for management participation in the program.

9. All individuals or groups who identify PECI opportunities that result in savings or improvements in productivity or who aggressively promote PECI initiatives within their organizations shall be recognized through the DoD Incentive Awards Program, DoD Instruction 5120.16 (reference (d)), performance appraisal, or by other appropriate means.

10. Planned PECI actions and expected benefits shall be documented and reported throughout the Planning, Programming and Budgeting System (PPBS) (DoD Instruction 7045.7, reference (e)).

F. CRITERIA

1. PECIs are investments in facilities and equipment that improve the relationship between the outputs (products and services) and the inputs (labor, material, and services including energy consumption) of an organization or function. Projects that merely alter the existing method of financing for equipment or facilities, such as, buying rather than leasing, do not qualify as PECIs. PECIs financed through Productivity Enhancing Incentive Funds (PEIF) will not be used to purchase equipment being operated under lease agreements or contracts unless: (1) productivity benefits, in addition to reduction in leasing costs, can be realized through improvements in methods, processes or procedures; or (2) leasing arrangements were initially established on a temporary basis contingent upon verifying potential of the investment to achieve productivity gains. Project benefits in constant prices shall be discounted over the expected payback period of the PECI to the date of initial operation. Should they equal or exceed total investments costs, then the project may be approved for funding. The discount rate to be used in this determination is that rate recommended in DoD Instruction 7041.3 (reference (g)) or other appropriate guidance.

2. PECIs are classified for the purpose of aggregation in reports or financial documents as: (a) OSD-sponsored projects (b) Industrial Fund Fast Payback (IFFP) projects; or (c) Other Component-Sponsored Investment (CSI) projects.

3. OSD-sponsored projects include but are not limited to:

a. Productivity Enhancing Incentive Fund (PEIF) projects. PEIF projects are fast payback PECI projects financed from drawing accounts established within annual appropriations. These projects cannot exceed $100,000 or cost limitations established by OSD (whichever is greater) and must be expected to amortize within 2 years of the date they become operational.

b. Productivity Investment Fund (PIF) projects. PIF projects are PECI projects that have been competitively selected by OSD from candidate proposals submitted by DoD Components and financed through traditional budget appropriation processes from funds set aside by OSD for this purpose. PIF projects must be expected to amortize within 4 years of the date they become operational. PIF project proposals must also conform to additional selection criteria (if any) as established annually by ASD(MRA&L).

4. Specific criteria for IFFP projects are provided in DoD Directive 7410.4 (reference (h)) and DoD Instruction 7410.5 (reference (i)).

5. CSI projects, including fast payback investments, may have longer payback periods or different cost or benefit criteria than those specified in this Instruction for PEIF or PIF projects. Such projects are encouraged. Specific criteria shall be developed by the sponsoring DoD Components and promulgated after review and approval by OASD(MRA&L).

G. PROCEDURES

The following procedures shall be followed by DoD Components in the identification, documentation, selection, and financing of PECI projects:

1. Each PECI project proposal shall be reviewed prior to approval and funding to ensure that it:

a. Is a desirable action and meets the Component long-range planning and programing objectives.

(1) Is needed to perform valid operations, functions, or services (as established by assigned missions and workloads) that cannot be performed as effectively or economically by the use of existing facilities or by contract, in accordance with DoD Directive 4100.15 and DoD Instruction 4100.33 (references (j) and (k)).

(2) Complies with policies and regulations governing the acquisition and management of facilities, special tooling, and special test equipment as established by DoD Directive 4275.5 (reference (l)) and DoD Instructions 4270.24 and 7040.4 (references (m) and (n)), and with all other policies and regulations governing the lease and acquisition of equipment and facilities.

b. Is subjected to economic analysis in accordance with DoD Instruction 7041.3 (reference (g)).

c. Has complete documentation to facilitate preinvestment analysis and postinvestment evaluation. A suggested format for documentation of PECI projects is provided as enclosure 3.

2. Resources for PEIF and other CSI projects shall be included in Program Objective Memoranda (POMs) and in budget submissions. The level of funding shall be established in consonance with productivity plans and goals developed in accordance with DoD Directive 5010.31 (reference (a)) and DoD 7110.1-M (reference (o)).

3. Guidelines for the management of PEIF and PIF projects, including procedures for documentation, preinvestment analyses, financing, and post-investment accountability are provided as enclosure 4. The use of these guidelines for documenting IFFP and CSI projects is encouraged.

4. All PECI projects shall be monitored on a periodic basis following the acquisition and installation of equipment to ensure that expected productivity benefits and objectives are achieved.

5. Special accountability procedures shall be initiated and information maintained on a project-by-project basis for all PECIs. At a minimum, information shall be available to:

a. Verify the obligation and expenditure of funds and costs incurred for approved projects.

b. Identify the amount and the disposition or reapplication of savings achieved and evaluate productivity improvements.

c. Provide a comparison of net benefits achieved with net benefits predicted in project justifications.

d. Identify project or program deficiencies and corrective actions taken.

e. Provide for audit of projects and for reports required by the OSD, the Congress, or other federal agencies.

6. PECIs shall be subject to audit in accordance with the policies and procedures established in DoD Instruction 7600.3, reference (p).

H. RESPONSIBILITIES

1. The Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) ASD(MRA&L) shall:

a. Develop policies and programing guidance for the overall DoD PECI Program.

b. Administer the overall program in accordance with responsibilities delineated in DoD Directive 5010.31 (reference (a)).

c. Maintain liaison with the Secretaries of the Military Departments and the Directors of the Defense Agencies to ensure compliance with this Instruction.

d. Coordinate PECI efforts with the Under Secretaries and Assistant Secretaries of Defense and the Chairman of the Joint Chiefs of Staff in matters that affect their particular areas of responsibility.

e. In coordination with the Assistant Secretary of Defense (Comptroller), recommend for approval of the Secretary or Deputy Secretary of Defense all PECI proposals to be financed from PIF.

2. The Assistant Secretary of Defense (Comptroller) (ASD(C)) shall:

a. Issue guidance and procedures for PECI financing and for PECI identification in DoD Component budget requests.

b. Ensure compliance with DoD Directive 5000.19, reference (q).

3. The Defense Productivity Principal designated by ASD(MRA&L) in accordance with DoD Directive 5010.31, reference (a), shall:

a. Provide technical guidance and support for the DoD PECI program.

b. Monitor and evaluate DoD Component PECI efforts.

c. Review all PECI project proposals to be financed through PIF and advise the ASD(MRA&L) of appropriate actions.

d. Analyze PECI data reported by the DoD Components and compile information that reflects the status and results of PECI efforts as a part of annual productivity reports to the Bureau of Labor Statistics and to the Congress.

e. Identify policy or implementation deficiencies requiring ASD(MRA&L) or ASD(C) attention and formulate recommendations for corrective action.

4. The Secretaries of the Military Departments and the Directors of the Defense Agencies shall:

a. Develop and sustain a formal PECI Program that:

(1) Emphasizes the improvement of day-to-day operations through facility modernization and capital-labor substitution.

(2) Provides motivation and opportunities for personnel at all levels to improve work processes and to reduce manpower resource requirements on a continuing basis through PECI.

(3) Includes a balanced approach consisting of PEIF, PIF, IFFP and CSI projects.

b. Establish procedures ensuring that the policies contained in this Instruction are implemented.

c. Designate an individual or central point of contact who shall be responsible for program management and who shall coordinate overall PECI efforts on a DoD Component-wide basis.

d. Ensure that PECIs are included and identified in programing and budgeting documents.

I. INFORMATION REQUIREMENTS

1. The Department of Defense is required by Congress and by the Executive Office to provide information annually on DoD productivity improvement efforts and on the investments made through PEIF. To comply with these requirements, information on PEIF and PIF projects shall be maintained at DoD Component headquarters level to respond to these requirements and to evaluate the efficacy of Component PECI programs. Components are encouraged to maintain similar information on IFFP and other CSI PECIs and to include this information in reports to OSD and to the Congress.

2. Enclosure 5 details information to be included as a part of annual budget submissions as required by DoD 7110.1-M, reference (o), or in the annual productivity report (Interagency Report Control Number 0169-OPM-AN). Information required by Enclosure 5 shall be provided to ASD(MRA&L) not later than January 1 of each calender year.

3. The information requirements of enclosure 3 have been assigned Report Control Symbol DD-M(A)1561. Information required in enclosure 3 shall be provided for PIF projects to be considered for funding by the OSD from programed PIFs.

4. Additional information may be required in accordance with programing guidance issued by OSD or POM preparation instructions.

5. To the extent practicable all information on PECI effort shall be extracted from existing accounting and management information systems, using data elements and codes from DoD 5000.12-M reference (r). Existing systems shall be modified to accommodate this. In no event should a special, separate system be established.

J. EFFECTIVE DATE AND IMPLEMENTATION

This Instruction is effective immediately. Forward two copies of implementing documents to the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) within 180 days.

RB Pirie Jr

Robert B. Pirie, Jr.
Assistant Secretary of Defense
Manpower, Reserve Affairs, and Logistics

Enclosures - 5
1. References
2. Definitions
3. Instruction for Completing PECI Documentation Format
4. Guidelines for Managing and Evaluating OSD Sponsored Capital Investment Projects
5. Procedures for Reporting

REFERENCES, continued

(d) DoD Instruction 5120.16, "Department of Defense Incentive Awards Program: Policies and Standards," July 15, 1974
(e) DoD Instruction 7045.7, "The Planning, Programming and Budgeting System," October 29, 1969
(f) DoD Directive 7000.1, "Resource Management Systems of the Department of Defense," August 22, 1966
(g) DoD Instruction 7041.3, "Economic Analysis and Program Evaluation for Resource Management,"October 18, 1972
(h) DoD Directive 7410.4, "Regulations Governing Industrial Fund Operations," September 25, 1972
(i) DoD Instuction 7410.5, "Financial Reports for Department of Defense Industrial Funds" January 3, 1975
(j) DoD Directive 4100.15, "Commercial and Industrial-Type Activities," February 4, 1980
(k) DoD Instruction 4100.33, "Operation of Commercial and Industrial-Type Activities," February 25, 1980
(l) DoD Directive 4275.5, "Acquisition and Management of Industrial Resources," October 6, 1980
(m) DoD Instruction 4270.24, "Minor Construction and Restoration or Replacement of Facilities Damaged or Destroyed," October 16, 1978
(n) DoD Instuction 7040.4,"Military Construction Authorization and Appropriation," March 5, 1979
(o) DoD 7110.1-M, "DoD Budget Guidance Manual," July 7, 1978, authorized by DoD Instruction 7110.1, October 30, 1980
(p) DoD Instruction 7600.3, "Internal Audit in the Department of Defense," January 4, 1974
(q) DoD Directive 5000.19, "Policies for the Management and Control of Information Requirements," March 12, 1976
(r) DoD 5000.12-M, "DoD Manual for Standard Data Elements," June 30, 1980, authorized by DoD Instruction 5000.12, April 27, 1965
(s) DoD 4000.19-M, "Defense Retail Interservice Support (DRIS) Manual," September 1978, authorized by DoD Directive 4000.19, October 14, 1980

DEFINITIONS

A. Capital Investment. The acquisition, installation, transportation and other costs needed to place equipment or facilities in operation meeting DoD capitalization requirements.

B. Capital-Labor Substitution. The employment of capital over a given period either as an investment or to acquire a service or product rather than employ personnel in the accomplishment of an operation or mission during the same period.

C. Component Sponsored Investments (CSI). PECI financed through funding provided by DoD Components programs and included in appropriations in response to DoD Component initiated budget requests for specific items.

D. Economic Life. The period of time over which the benefits to be gained from a project may reasonably be expected to accrue to the Department of Defense (see enclosure 3 of reference (g), DoD Instruction 7041.3).

E. Internal Rate of Return. The discount rate that equates the present value of the future cash inflows with the present value costs of an investment.

F. Net Present Value of Investment. The difference between the present value benefit and the present value cost at a given discount rate.

G. Off-the-Shelf. Equipment that is readily available through government or commercial sources or that can be fabricated through combination or modification of existing equipment without extensive research and development effort.

H. Payback Period. The number of periods required for the (undiscounted) cumulative cash inflow to have the same value as the investment cost.

I. Productivity Enhancing Capital Investment (PECI). A capital investment in equipment or facilities that will improve the ratio of units of output to units of input of an organization or function.

J. PECI, Fast Payback. A PECI that will pay for itself within a short period. For those Fast Payback PECIs financed from PEIFs, the maximum payback period is 2 years. For those financed from Industrial Funds, the maximum payback period is 3 years. Component-sponsored fast payback project payback period should not exceed 3 years.

K. PECI Savings. Benefits resulting from PECIs that can be reflected as reductions in personnel, material or services costs incurred.

(1) Hard Savings. Benefits that can be precisely measured, quantified, and placed under management control at time of realization. Hard savings normally are applied as specific reductions in manpower and budget dollar requirements.

(2) Cost-Avoidance Savings. Benefits from actions that obviate the requirements for an increase in future levels of manpower or costs that would be necessary if present management practice were continued. The effect of

cost-avoidance savings is the achievement of a given level of readiness at less staffing cost or the absorption of a growing workload at the same level of staffing or cost. Cost-avoidance savings may be included as supporting documentation for resource (manpower or dollars) requirements computations in annual budgets.

(3) Opportunity Trade-off Savings. Benefits that occur as a result of selecting the least-cost alternative from among alternative choices. These savings occur by avoiding the loss of an opportunity to enhance productivity and accrue benefits by choosing one course of action over another. Opportunity trade-off savings are often used to document the need for a productivity enhancement action or as a factor in marginal analyses.

L. Productivity Investment Funds (PIF). Funds initiated through OSD program and budget guidance to finance competitively selected PECIs. To qualify for PIF financing, projects are expected to have payback periods of 4 years or less.

M. Productivity Enhancing Incentive Funds (PEIF). Special funds established to provide timely financing for fast payback PECI opportunities. To qualify for PEIF financing, projects are expected to have payback periods of 2 years or less and must meet the criteria established in this instruction.

INSTRUCTIONS FOR COMPLETING

PECI DOCUMENTATION FORMAT

A. GENERAL

1. The information to be provided in the capital investment documentation is designed to provide minimal data essential to the preinvestment analysis of individual project proposals. The use of this format is mandatory for all PIF project proposals submitted to OASD(MRA&L). It is also suggested for use in documenting PEIF proposals and other capital investment proposals. The use of uniform documentation will improve program management at all levels and should facilitate postinvestment appraisal.

2. Coding must be as indicated in these instructions. In cases where specific coding instructions are not provided, reference must be made to DoD 5000.12-M reference (r). Items marked with an asterisk (*) have been registered in the DoD Data Element Program. Failure to comply with either the coding instructions contained herein or those published in the DoD 5000.12-M will mean that project proposals will not be considered by OASD(MRA&L).

3. All PIF project proposals will be signed by the proposing individual and by an official authorized to approve its submission to OASD(MRA&L) for consideration. DoD Component offices serving as central points of contact for the DoD PECI effort will have access to all documentation pertaining to individual proposals and are responsible to review proposals for accuracy, completeness, and adherence to established criteria prior to their submission to OSD.

B. INFORMATION REQUIRED

ITEM NO.	INFORMATION TO BE ENTERED
1. Project No.	Assign the DoD Component number. This number may consist of up to 6 alphanumeric characters.
2.* DoD Component Name	Enter the name of the DoD Component submitting this project. Reference Data Element DE-NM, from DoD 5000.12-M, reference (r).
3.* DoD Component Code	Enter the single character alpha code designating the submitting Component identified in DoD 5000.12-M, reference (r). Reference Data Element DE-NM (Attachment 1).

4.* Command Code	Enter the six-character alpha numeric code identifying the major subordinate command within the DoD Component to which the submitting unit or activity is assigned. (see DoD 4000.19-M, appendix III (reference (s)).
5.* Date	Enter the date on which this project was submitted by proposer to OSD (or to component command) for approval. Reference data element DA-FA-AF, DoD 5000.12-M, reference (r).
6. Project Title	In 25 alphanumeric characters or less, describe or identify the project. Title should, if possible, indicate type of equipment or facilities included in project.
7.* Type of PECI Project	Check appropriate block to indicate whether this project is one which will be financed through a. PEIF b. PIF c. IFFP d. CSI
8. Functional Area Where savings	List the name of the functional area where the benefits derived from this investment will occur. Functions are those identified in enclosure 3 of DoD Instruction 5010.34, reference (b). If the appropriate function is not listed in this enclosure, list the function involved and explain in Item 16.
9.* Economic Life	List in years the estimated economic life of the project. Reference Data Element 10-TT-28-AA, DoD 5000.12-M, reference (r).
10.*Expected Operational Date	Enter the year and month that this project is expected to become fully operational, such as when all installation, debugging, and pre production actions have been taken. Reference Data Element DA-FA-AA, DoD 5000.12-M, reference (r).

11.*Name of Submitting Unit	List the name of the activity submitting this proposal. The activity listed should be the activity, installation, or unit responsible for installing, operating, and receiving benefits from this proposed investment. If this project includes investment at more than one activity, identify the numbers and types of activities (such as, 6 Naval Supply Centers).
12* Unit ID Code(s)	Individual DoD Components have established a unique 6 character Unit Identification Codes (UIC) for each activity. Enter, the UIC for the submitting unit or units listed in (11).
13. Project Description	Describe the nature of the project in nontechnical terms. Indicate what equipment or facilities will be acquired, how they will be used, and how productivity will be improved.
14. Detailed Justification	Briefly describes the specifics, in terms of summary costs and benefits, used to amortize this project. This should include significant changes from present processes or operations and expected results. Detailed breakdown of costs and benefits may be provided as attachments to the project documentation.
15. Savings Disposition	Indicate the planned disposition of project benefits, by function or program element. Indicate whether they to are be reapplied within the same program, to be reprogramed, or used to reduce specific budget requirements. Where known, deferred workloads in area of reapplication should be quantified.
16 Other Remarks	This space should be used to provide other pertinent information that will affect the consideration of the project. Items such as backlogs, manpower constraints, or mission or program priorities that will be affected by the project may be included. Intangible benefits (improved timeliness, quality, or mission effectiveness) may be described. Remarks should be concise and cogent.

17. Investment Data This section will be used to quantify information relating to the investment costs.

*a. Fiscal Year (FY). Enter the appropriate fiscal year for each row of data. Reference Data Element YE-NA-FY, DoD 5000.12-M, reference (r).

b. Appropriation and Budget Activity. List the appropriation or fund and the budget activity (facilities category for military construction appropriations) in which funds will be requested for this project. For the procurement appropriations, line items will be shown (except for PIF projects). For the RDT&E appropriations, program elements will be shown.

*c. Acquisition Cost. Identify, in thousands of dollars to the nearest tenth, the expected acquisition cost of the equipment and facilities in the appropriate fiscal year row. Reference Data Element MO-CH-AA, reference (r).

*d. Installation Cost. List, in thousands of dollars to the nearest tenth, the expected cost of project installation that will be financed not included in acquisition cost regardless of funding. Amounts should be entered in the row corresponding with item (b). Reference Data Element MO-AI-AA, reference (r).

*e. Transportation Costs. List in thousands of dollars to the nearest tenth, the expected costs of transportation not included in Acquisition Cost, item 17.c. Reference Data Element MO-AI-AA, reference (r).

*f. Other Costs. List, in thousands of dollars to the nearest tenth, the expected costs (training, start-up), that will be incurred by this project before it can become fully operational. Exclude normal operational costs that will be accounted for by computing the net benefits to be listed in item 18.a. and 18.b.. Reference Data Element MO-AI-AA, reference (r).

18. Net Benefit Data Use this section to document net benefits that are quantifiable in dollars. All entries will relate to the fiscal year listed in 17.a..

*a. Total Savings. List, in thousands of dollars to the nearest tenth, the expected value of the benefits to be derived from this project, after operating costs have been deducted. In those instances where operating costs exceed gross benefits, a negative (-) entry will be shown. Reference Data Element MO-DY-AA, reference (r).

*b. Labor Savings. List, in thousands of dollars to the nearest tenth, the expected value of the personnel savings reported in 18.c. and d.. Reference Data Element MO-DY-AA, reference (r).

*c. Personnel Savings (Authorizations). List the whole personnel spaces saved by this project. These spaces are those that are no longer required to perform the operations affected by the investment and can be transferred to another specific assignment. Reference data Element 10-TT-28-AB, reference (r).

*d. Personnel Savings (Equivalents). List the personnel space equivalents that result from converting workhours or workdays saved by this project. Include savings which reduce validated requirements for which authorization have not been formally established. Personnel avoidance savings may also be included. Reference Data Element 10-TT-28-AA, reference (r).

19.*Point of Contact Enter the last name, first name, and middle initial of the individual submitting the original proposal for this project. If the proposal is being proposed by a group of individuals or an organization, identify in this space the name of the point of contact for further information on the project. Reference NA-RG-AA, reference (r).

20.*Date Enter the date that this project was originally submitted by the proposing individual. Reference Data Element DA-FA-AF, reference (r).

21. Phone Enter the official work telephone number of the individual listed in item (19) above. Identify Area Code Number or AUTOVON Number, telephone number, and extension number.

22.* Name of Approving Official Enter the name of the official who has approval authority, within the submitting DoD Component, to approve the project either for

	authorization of funds or for submission to OSD for funding consideration. Reference NA-RG-AA, reference (r).
23.* Date	Enter the year, month, and day approval was granted. Reference Data Element DA-FA-AF, reference (r).

DOCUMENTATION FORMAT FOR
PRODUCTIVITY ENHANCING CAPITAL INVESTMENTS

1. ______ Project No. 2. ______ DoD Component Name 3. ______ DoD Component Code 4. ______ Command Code 5. ______ Date (YYMMDD)

6. ______ Project Title

7. ( ) PEIF ( ) PIF ( ) IFFP ( ) CSI ( ) Other
(Type of PECI Project - Check one.)

8. ______ Functional Area Where Savings Will Occur 9. ______ Economic Life (In Years) 10. ______ Expected Operational Date (YYMM)

11. ______ Submitting Unit (s) 12. ______ Unit Identification Code (UIC)

13. Project Description:

14. Detailed Justification:

15. Savings Disposition:

16. Other remarks:

FY 19__

ANNUAL PRODUCTIVITY REPORT - PRODUCTIVITY ENHANCING CAPITAL INVESTMENTS

FOR __________,
(DoD Component)

	PECIs - OTHER THAN FAST PAYBACK		FAST PAYBACK PECIs	
	PIF	CSI	PEIF	Industrial Fund
1. No. of Projects (CFY)				
2. Total Investment Cost (CFY)				
3. Other Costs (CFY)				
4. Funds Requested (BFY)				
5. Estimated Returns (CFY Projects)				
a. Dollar Savings (Annual)				
b. Dollar Savings (Project Economic Life)				
c. Personnel Savings (Personnel Authorizations)				
d. Personnel Savings (Personnel Equivalents)				

DOCUMENTATION FORMAT (Continued)
PRODUCTIVITY ENHANCING CAPITAL INVESTMENTS
ANALYSIS DATA

17. INVESTMENT DATA						18. NET BENEFIT DATA			
(a) FY	(b) APPROPRIATION & BUDGET ACT.	(c) ACQUISITION COST ($000)	(d) INSTALLATION COST ($000)	(e) TRANSPORTATION COSTS ($000)	(f) OTHER COSTS ($000)	(a) TOTAL SAVINGS ($000)	(b) LABOR & SAVINGS ($000)	(c) PERSONNEL AUTHORIZATIONS (Nearest .0)	(d) SAVINGS EQUIVALENTS (Nearest .1)
TOTAL									

CERTIFICATION: This project complies with public laws, OSD policies and regulations, and all other regulatory constraints including the provisions of DoD Directives 4100.15 and 4275.5, references (j) and (l) and DoD Instruction 7040.4, reference (n).

SUBMITTED BY:

19. ______________________________
Name of Proposing Individual (Last, First, M.I.)

20. ______________
Date (YYMMDD)

21. ______________
Phone (Area Code + Number)

22. ______________________________
Name of Approving Official (Last, First, M.I.)

23. ______________
Date (YYMMDD)

PROGRAM ELEMENT CODES (DoD Standard Data Element Reference DE-NM)

The following identifier codes are contained in the position of each program element:

A - Department of the Army
B - Defense Mapping Agency
D - Office of the Secretary of Defense
E - Defense Advanced Research Projects Agency
F - Department of the Air Force
G - National Security Agency
H - Defense Nuclear Agency
J - Joint Chiefs of Staff (including the Joint Staff, Unified Specified Commands)
K - Defense Communications Agency
L - Defense Intelligence Agency
M - United States Marine Corps
N - Department of the Navy
R - Defense Contract Audit Agency
S - Defense Logistics Agency
T - Defense Security Assistance Agency
U - Defense Audit Service
V - Defense Investigative Service
W - Uniformed Services University of the Health Sciences
Y - Defense Audiovisual Agency
Z - Department of Defense Dependents Schools

GUIDELINES FOR MANAGING AND EVALUATING
OSD-SPONSORED
CAPITAL INVESTMENT PROJECTS

A. Project Justification and PreInvestment Evaluation

In order that projects submitted for financing from OSD-sponsored funds are evaluated and financed in a uniform manner by all DoD Components, the following guidelines are provided. These guidelines are intended to ensure that each project is adequately documented, effectively evaluated in making optimum allocation of authorized PEIF and PIF monies, and materially contributes to improving the productivity of a function, operation, or organization.

B. Investment Project Criteria

OSD-sponsored capital investments are those investments financed from either the PEIF or through PIF established in defense programing documents.

1. PEIF Projects. Projects financed from PEIF will be limited to:

a. PECIs that cost less than limits established in annual appropriations (or $100,000 if no cost ceiling is otherwise prescribed) and which are expected to return all investment costs within 2 years from the date it becomes operational.

b. Off-the-shelf commercial equipment.

c. Projects or items not included in other requests for funds in current year budgets or specifically denied by Congress in prior year budget requests.

d. Projects justified on the basis of potential productivity improvement quantified as tangible savings (either personnel dollars or material) realized through changes in operating methods, processes, or procedures.

2. PIF Projects. Projects financed from PIF will be limited to:

a. Those projects considered and approved for inclusion in DoD Component budgets on the basis that:

(1) Proposed project is expected to return all investments costs (acquisition, transportation and installation) within 4 years from the date it becomes operational, through savings measured in budget year prices.

(2) The minimum project cost is at least $100,000 for projects at nonindustrial-funded activities and at least $300,000 for projects that meet the criteria for fast payback investments under DoD Directive 7410.4 (reference (h)), at industrial funded activities. Projects need not, be limited to investments at a single activity but may group similar or related items which use the same basis for justification or are for the same functional area.

(3) Projects must be for improvements in functions currently measured under the DoD Productivity Program or for which specific plans

have been made to report in DoD Component productivity data. Measurement should be comprehensive enough to ensure visibility of project benefits within the function. For proposals in unmeasured areas, project submissions should include plans for measurement. Savings from approved projects, however, may be reapplied to either measured or unmeasured functions. This reapplication shall be consistent with the provisions of DoD Directive 5010.3, reference (a).

(4) Funds will not be used for: (a) projects directed at the acquisition and ownership of equipment and facilites currently being leased from the private sector or other government organizations; (b) projects that establish an in-house capability for operations readily and more economically available through commercial contract. (c) investment at GOCO facilities.

3. Project Documentation. Each PIF and PEIF project proposal will be documented in accordance with paragraph G.1.e. and enclosure 3 of this Instruction. Projects will be identified as such on the documentation as either a "PEIF" or "PIF" Project. At a minimum, records of savings for projects will reflect disposition of those savings to the completion of the payback period for the investment.

4. Evaluation of Project Proposals. Project proposals will be reviewed, both at the originating level and at a level other than the originating activity, to ensure that:

a. Each PEIF project satisfies the criteria established in subsection G.1. of this Instruction and section B. of this enclosure, and

b. No other funding exists for this project nor have prior funding requests been specifically denied by Congress or the Office of Management and Budget.

C. Post Investment Accountability. PEIF projects are, by their nature, excluded from OSD and Congressional scrutiny prior to funding authorizations. To assure that only valid projects are financed from PEIF and that benefits projected as a basis for project approval are, in fact, realized and reapplied, each component will ensure fully that accountability in accordance with paragraph G.4 of this instruction, is established in procedures and sustained by appraisal and audit.

1. Project Appraisal. Projects will be monitored on a periodic basis following acquisition and installation of equipment to ensure that expected productivity benefits and objectives are achieved. Appraisals should be performed by both the organization responsible for project installation and by organizations other than the submitting activity to ensure objectivity in appraisal results.

2. Program Procedures. Military Services and Defense Agencies will provide, as a part of PECI program guidance, procedures to ensure that post investment appraisals are performed to the extent necessary to ensure that:

a. Fund allocations are used only to acquire equipment identified in approved project proposals.

b. Productivity improvements predicted in project justification and used as a basis for project selections are, within reasonable limits, being realized in the amount and time expected. Where actual operating conditions have precluded realization of expected benefits, these conditions should be identified and corrective actions initiated.

c. Quantification and disposition of productivity benefits (dollars and personnel) are documented, during the period required to return investment costs, to the degree necessary for post investment appraisal and audit.

3. Provisions for Audit. Each Military Department and Defense Agency will incorporate provisions for appropriate audit of PECI projects in accordance with requirements established in DoD Instruction 7410.5, reference (i). An annual summary of the results of audit performed during the operating year will be provided to ASD(MRA&L) prior to next submission of the Component budget to the Congress.

PROCEDURES FOR REPORTING

A. GENERAL

Information on PECI efforts will be required to satisfy the requirements of the Federal Government productivity program and Congressional requirements. It will also be essential to evaluate the efficacy of DoD Component PECI programs in support of established productivity goals. Specific information reporting requirements are contained in DoD Directives 7410.4 and 4275.5, references (h) and (i). Additional information will by included as a part of the productivity data reported annually by each DoD Component. To comply with these reporting requirements, it is necessary that each DoD Component maintain the following information on a summary and project-by-project basis.

B. INFORMATION REQUIREMENTS

Information requirements relate to three distinct aspects of this instruction: (1) PECI programs and budgets; (2) PECI results; and (3) PEIF.

1. PECI Programs and Budgets. Information will be maintained that reflects PECI plans for the current fiscal year (CFY), the budget fiscal year (BFY), and for the outyears in the Five Year Defense Program. At a minimum, this information will include:

a. Expected investment dollars, by type of investment (subsection F.2. of this Instruction).

b. Expected benefits and savings from these investments on an annual and economic life basis.

c. Levels of funding for PEIF and Industrial Fund PECI programs.

2. PECI Results. Information will be maintained, on a project-by-project basis and by functional and Component summaries, on the actual benefits and savings achieved through PECIs. At a minimum, a record of the benefits will be maintained through the period required to return all investment costs of each project. Benefits will be recorded through the economic life of the projects. At a minimum, information on benefits will include:

a. Actual dollar savings achieved.

b. Manpower savings achieved.

c. Comparisons of actual to projected benefits.

d. Audits performed on PECI projects and programs.

3. PEIF Effort Information on PEIF efforts will be maintained to the extent necessary to satisfy OSD and Congressional requirements. This will include:

a. Number of projects annually.

b. Level of funding annually for CFY and BFY.

c. Dollar value of approved projects annually.

d. Funds obligated in CFY.

e. Expected annual benefits (dollars and manpower).

f. Summary of PEIF program audits.

C. PECI INFORMATION IN ANNUAL PRODUCTIVITY REPORTS

At a minimum, the following will be provided on PEIF and PIF investments as a part of annual productivity reports (RCS 0169-OPM AN). Information included in this report should complement productivity measurement data and be used in analysis of productivity change. Inclusion of information on CSIs and IFFPs is encouraged to provide overall visibility of Component PECI programs. Information reported will be provided in the format shown in Attachment 1 of this enclosure. The Current Fiscal Year (CFY) indicated on this report is the fiscal year completed and the year for which the report is being compiled. The Budget Fiscal Year (BFY) represents CFY + 1. Audit summaries will be provided no later than the submission of this report.

Attachment

CONTRACT SUPPORT SERVICES

Question. What were the total costs related to contractor support of weapon systems in fiscal years 1983–1986? What account(s) are they found in? What is in the fiscal year 1987 budget for acquisition support contracts?

Answer. The following table is a summary of the estimates for Systems Engineering and Contract Technical Engineering Services for the period FY 1985 through FY 1987 for the Military Services. The Defense Agencies are not included in the table since they do not have such costs associated with the acquisition and operation of equipment.

[In millions of dollars]

Component	FY 1985	FY 1986	FY 1987
Army	52.8	80.3	91.2
Navy	945.4	911.2	1,010.2
Air Force	316.2	374.6	390.0
Total	1,314.4	1,366.1	1,491.4

These estimates were developed in response to the requirements in section 918 of the FY 1986 Conference Armed Services Committee Report which required the formulation of definitions for Contracted Advisory and Assistance Services (CAAS). The estimates shown above are extracted from Part D of the new budget exhibit PB–27 on Contract Support Services which was submitted in compliance with section 918. Comparable estimates for FY 1983 and FY 1984 are not available. Estimates for fiscal years prior to FY 1985 were not prepared in accordance with these new definitions. Therefore, they are not comparable to the above estimates. The following table shows the distribution of the above estimates by individual appropriation:

[In thousands of dollars]

Component/appropriation title	Fiscal year—		
	1985	1986	1987
ARMY			
Procurement, aircraft	49,684	74,371	83,052
Operation and maintenance, Army	3,103	5,914	8,173
Total	52,787	80,285	91,225
NAVY			
Operation and maintenance, Navy	535,985	518,371	531,204
Operation and maintenance, Navy Reserve	10,127	11,668	13,480
Operation and maintenance, Marine Corps	5,256	5,122	5,332
Aircraft procurement	32,272	22,792	26,592
Weapons procurement	10,626	11,131	16,388
Shipbuilding and conversion	329,339	319,556	391,711
Other procurement	18,032	19,037	22,256
Procurement, Marine Corps	360	100	....
Research, development, test and evaluation	3,419	3,445	3,285

Component/appropriation title	Fiscal year— 1985	1986	1987
Total	945,416	911,222	1,010,248
AIR FORCE			
Operation and maintenance, AF	309,892	366,641	381,673
Operation and maintenance, AF Reserve	5,092	5,470	5,730
Operation and maintenance, Air National Guard	1,167	2,461	2,559
Total	316,151	374,572	389,962

[CLERK'S NOTE.—End of questions submitted for the record.]

TUESDAY, MARCH 4, 1986.

MEDICAL PROGRAMS

WITNESSES

HON. WILLIAM MAYER, M.D., ASSISTANT SECRETARY OF DEFENSE, HEALTH AFFAIRS

LT. GEN. QUINN H. BECKER, USA, THE SURGEON GENERAL

VICE ADM. LEWIS H. SEATON, USN, MC, THE SURGEON GENERAL AND DIRECTOR, NAVAL MEDICINE

LT. GEN. MURPHY A. CHESNEY, USAF, THE SURGEON GENERAL

INTRODUCTION

Mr. ADDABBO. The committee will come to order.

This second hearing this afternoon addresses the military medical systems including the defense drug and alcohol abuse prevention programs.

The fiscal year 1987 budget request for medical operations is approximately $10 billion, including $2 billion for CHAMPUS.

We have four witnesses appearing before us today: Dr. William Mayer, the Assistant Secretary of Defense for Health Affairs; Lieutenant General Becker, the Surgeon General of the Army; Vice Admiral Seaton, the Surgeon General of the Navy; and Lieutenant General Chesney, the Surgeon General of the Air Force.

We ask that you summarize your statements. Your formal statements will be printed in the record.

It is the intention of the Chair to go until 4:00 p.m. with the open session of the hearing. We will then go into classified session.

Before you commence, Dr. Mayer, I want to commend you. As a former patient at Walter Reed, I commend the service that I was given. Only through the wonderful service at Walter Reed and the prayers of my friends am I here today.

OPENING STATEMENT OF DR. MAYER

Dr. MAYER. It is a great pleasure to see you again.

Members of the committee, I feel very privileged to have this opportunity to be here with my colleagues in the uniformed services and to discuss for you the Department's medical activities and its budget for the next year.

As you know, military medicine has two vitally important missions. They compete for limited resources, the primary mission of readiness and the other equally important day-to-day mission of taking care of our families or dependents, and retirees in peacetime.

This peacetime activity at present constitutes the bulk of our budget, and it plays a very important role in supporting our medical readiness mission. It is a valuable form of compensation for our volunteer force and a priceless training and teaching setting in which our military medical officers and other professionals maintain and improve our skills.

MEDICAL READINESS

This has been a year of firsts in medical readiness. Long overdue efforts to improve the readiness posture of the military medical forces is due in no small part to the dedication and hard work of the leadership in the Army, Navy and Air Force.

Most outstanding achievements in both Europe and the Pacific have been the development of a capability to respond with highly skilled, completely equipped teams of people who on a few moments' notice can embark for any place in Europe or the Middle East or the Pacific if the need arises. I personally inspected several such teams in Europe last week and I feel we are better prepared than ever before.

Another significant action in this past year was the establishment by the Office of the Joint Chiefs of the position of command surgeon in Europe as a full-time flag ranked medical officer.

I remain convinced that a similar position should be established in the Pacific and that to be truly effective in both peacetime and war, the position of command surgeon must have clear directive authority over all medical assets within his geographic command. General Rogers told me last Friday that he supports this concept.

In joint planning we have seen additional medical planners in both the Europe and Pacific theaters. In this we have gotten a great boost from General Dick Lawson, the Deputy Commander in Chief in Europe. He told me again last week that the first joint medical operations plan is now nearing completion and will soon be ready for his signature.

Another area of great concern to us has been how best to manage the enormous amount of medical supplies required in the European theater.

A six-month study is underway to determine if the medical materiel center run by the Army in Europe can serve theater-wide interservice requirements. Based on the support we have gotten for this effort by General Lawson and what I learned during my recent visit to the European command, I am confident that this test will be successful, and we will soon see a single medical logistics and supply system.

In addition, I have charged Admiral James Zimble with developing a worldwide master plan in conjunction with the Services for medical support including the establishment of an integrated medical mobilization plan for peacetime and wartime worldwide.

MANPOWER REQUIREMENTS

One of the most difficult tasks of military medical planners involves determining manpower requirements both in terms of total numbers, and in specifics with regard to medical specialties, and also in determining what the appropriate mix is between the active component and the reserve to adequately meet contingency requirements.

I am pleased to report that we are finally approaching a resolution for the development of a computerized model, the medical planning module of the joint operations planning system that is standard across all the Services. I have directed all three Services to utilize the medical planning module in developing fiscal year 1988 and subsequent requirements submissions.

In addition, I am pleased to inform the subcommittee that for the first time the official Defense Planning Guidance provided to the Services clearly directs new policies designed to improve our medical posture in both the active and the reserve components.

I have been working very closely with the Assistant Secretary of Defense for Reserve Affairs, Mr. Webb, who has been supportive and shares our concerns. Mr. Webb and I intend to develop very quickly a series of special innovative initiatives to enhance our ability to cure medical manpower requirement shortfalls in the reserve.

Another important accomplishment for us entirely within DoD was the acceleration and full programming of needed deployable medical equipment through 1991, and if that goes as planned, we will have everything aboard by 1993.

SURVEYS AND INVESTIGATIONS STAFF REPORT

I want to acknowledge your strong support in funding for this last year. I would like to clear up any misunderstanding which may have been created by the Survey and Investigation (S&I) team recommendations to you about the apparent lag in our manpower programs.

The services will be required to use the new medical planning module for their 1988 submissions as I mentioned earlier. However, that does not mean that corrective actions will not be made until fiscal year 1988 as the report suggested. In fact, I expect to have new information upon which to base corrective manpower planning within 60 days of now.

The S&I Staff recommended in essence a slowdown in the procurement of medical equipment, and I would like to take very strong exception to that recommendation. We will only meet our total goals if we proceed aggressively along three major tracks: procurement of equipment, personnel, and improved joint planning.

The deployable medical systems represent the critical equipment formula. There is no medical pipeline in this country. Unlike the vast medical pipeline for personnel, there is no equipment pipeline, and it normally takes two years from ordering until the time we procure major buys of equipment.

Mr. **Addabbo**. Why?

Dr. **Mayer**. Because they don't keep stuff in stock in warehouses.

The progress in medical technology, particularly in equipment, is so fast that no company will build and stockpile the kinds of things that may be overtaken by technological innovation within a year. So when we want something, we order it.

Curiously enough, this even extends to hemostats. There is no great supply of those sitting around some place that we can just call on. That is not how the medical equipment industry in this country functions.

The DEPMEDS can be stored and maintained at low cost in a turn-key mode, which the Air Force is doing splendidly, and they can be used for training both by active duty and reserve units.

The DEPMEDS give us our ability to be prepared for war on little or no notice. For example, the Air Force turn-key operation and several that the Army is working on in Europe can be put into full operation in 24 hours so we can move a reserve unit over there and put it to work in that time.

Without the continuation of this funding program, our overall efforts to achieve readiness will be severely hampered.

The S&I staff seemed to take issue with our use of the term hospital beds as a measure of our readiness capability. When we talk about beds, we talk about not only the numbers of places where people can lie down, but that portion of the lab, the X-ray, the surgery, everything that we need to support those beds.

In our hospital ship program, both the U.S. naval ship Mercy and the U.S. naval ship Comfort are well along and well ahead of schedule. As a matter of fact, we hope to christen Mercy this summer and while it is primarily a vital readiness asset, I hope to give it an important peacetime mission as well.

I would like to talk to you about that. Substantial progress has been made over the past two years in establishing new agreements with our allies and in clarifying existing ones for the use of land and facilities to provide for interim assistance in hands-on medical care until our deployable facilities become operational.

I must caution, however, that in my best judgment, reliance on host national medical support is in no way a wholly realistic or acceptable solution to our readiness problems and shortfalls.

CHAMPUS REFORM INITIATIVE

With respect to cost containment, I assure you that our concentrating on medical readiness has not been at the expense of our peacetime mission. We are embarking on a bold plan to serve all efforts very well.

CHAMPUS, as a mechanism for purchasing health care for DoD beneficiaries, is an anachronism. It was set up 19 years ago and has not been modified since. It is an open-ended, pay-the-bill-as-submitted program.

I am equally sensitive to the fact that it is a major source of complaints to this body. Under our new CHAMPUS reform initiative, which we have no plan or proposal to make because it is in the development stage, we hope to adopt innovations like those that have made the private sector health programs less costly and complex.

We want to substantially increase access of our patients to primary outpatient care, increase the ability of military hospitals to provide specialty inpatient services most related to medical, wartime medical and surgical specialty needs, decrease the cost that our beneficiaries have to bear, which are far greater today than they were 19 years ago, and decrease the hassle that our people have to go through.

Only 35 percent of our physicians surveyed will accept CHAMPUS assignment. This means that the young wife of a sergeant in the Army going out on CHAMPUS has to pay the bill up front and then submit a claim to CHAMPUS and hope she does it right, and the hassle is tremendous.

Since we began developing this initiative a year ago, a great deal of misinformation has spread concerning the potential impact of these efforts.

I want to take this opportunity to set the record straight. These contracts if we can accomplish them will have specific requirements regarding quality assurance. We have nothing to say about quality assurance in the current CHAMPUS program. The contract will not be awarded on the basis of lowest bid. We have no plan to reduce benefits available to any of our beneficiaries.

We have no plans to close the doors of military hospitals to our civilian dependents and retirees. Contrary to some reports, we are not going to fire our pediatricians or abolish non-surgical graduate medical education for physicians.

We are attempting to direct our future acquisition efforts, including those we train, to those physician specialties which most closely satisfy our readiness mission requirements and fine-tune our graduate education efforts to best meet the needs of the whole system.

The efforts of this department to ensure the quality of medical care provided to DoD beneficiaries are well documented both in my statement and in the public domain.

I repeat my belief based on much experience that the U.S. military medical system has no equal in the armed forces of any part of the world, and it is at least as good if not better than the care generally available in the civilian sector.

PRESS COVERAGE

I want to assert that I continue to be outraged by press reports such as the one which occurred last night on NBC news which dredged up old and isolated cases. It brought those cases up in an attempt to characterize this very excellent system that we represent as being in any way generally substandard, sleazy or in any other way inferior. It is not.

I think it does a terrible disservice to our beneficiaries and to the thousands of men and women comprising the military medical system when the press, in the face of the many reforms that we have instituted continue their apparent vendetta against military health care, and I hope members of this subcommittee will reject that kind of misinformation.

Our system is probably the most highly scrutinized medical system on earth. We have 39 different inspections and audits going on this minute within the system. We don't fear the scrutiny; we welcome it, and I think our decision to invite civilian peer reviewers to help us look at our quality assurance is testimony to our confidence in the system and our certainty that we will show up without substantial defects.

Both I and the surgeons general can answer any questions that you have about that program, and where we are going in the future.

EUROPEAN COMMAND

I would like to close by sharing a few observations from my visit last week to the European command during the course of which I spoke to thousands of beneficiaries, medical staff officers and line commanders about our military health care.

I conducted a couple of dozen community meetings. I met with the major commanders at all echelons of command throughout Europe.

My current perceptions of the status of the European command's medical preparedness is that much substantial progress has in fact been made in particular in the areas which I already mentioned: planning and the crisis response teams.

Today we are in better shape to deal with the expected medical workload that would be generated in a short war scenario than we were two years ago. To accommodate the medical needs resulting from a longer conflict, especially a major general war, it is absolutely essential that our present efforts in equipment, personnel and planning be continued.

The European commanders, particularly General Rogers, who I talked to Friday, and General Lawson, who I talked to Thursday, are in full agreement with me on this critical point.

So the confusion that has arisen in the past when I have said we have a limited preparedness and others say we are completely prepared arises from the fact that we have two different circumstances, and the focus has been unfortunate.

Much needs to be done to improve the peacetime delivery system in Europe. We must address problems of providing medical care to servicemen and families in remote areas, including Naples, Sigonella and Rota, and frankly we must have, and I told General Rogers this, more medical staff overseas, not just physicians. we need the support for the physicians without which they are not productive as they should be and without which we can't give the level of care to which our people are entitled.

General Rogers asked, "Who do I send home because of the troop ceiling?" I said, "I would appear before you today and state my conviction that since the medical care mission goes on every day, 24 hours a day, we can't let up on it, that we be granted some kind of a waiver, specifically for medical troops to the European troop ceiling."

We must improve our operational medical evacuation system in Europe. It is far better than it was a few years ago, but it still requires long waits sometimes for care that should be given sooner.

We can always handle emergency care, but we are sending people to Germany from places like Naples and Sicily and Spain and the delays are sometimes very great because it is not an emergency.

Joint planning for the use of medical specialists in short supply must be increased in Europe. We can share better than we have in the past and this is why we need a command surgeon in Europe. We can share limited numbers of specialists and fly them around on a regular consultative basis easier than we can fly patients around.

We have to find innovative solutions to the problems posed by the use of CHAMPUS overseas. Our CHAMPUS reform initiative at this point does not include overseas, but the number of CHAMPUS claims in Europe has tripled in a little over a year.

When I was stationed there a few years ago, nobody would consider going to a German doctor. The troops were uneasy about people not speaking English, they didn't know how to pay for it, and suddenly things have changed and people are using CHAMPUS overseas.

But the CHAMPUS providers overseas are not used to billing, they don't understand our procedures, they only bill every three months so the bills are greatly in arrears and some recognition of this must take place. We are searching for solutions to make CHAMPUS work better over there.

In some areas of Europe, we don't have medical facilities and we have highly mobile troops. Even the troops themselves sometimes are forced to get medical care in the civilian community. We don't have a pat solution to that, but it is something that absolutely has to be addressed.

GRAMM-RUDMAN-HOLLINGS

I would also like to comment just briefly and finally on the impact of Gramm-Rudman-Hollings on the entire budget reduction effort.

Every audience I met with in Europe expressed the fear that we were going to scale back medical care because of Gramm-Rudman.

We are making every effort to ensure that reductions for fiscal year 1986 are carried out with an absolute minimum disruption to medical program operations and our instructions from the Secretary's office are that there will be no reduction in health care, however else we may try to economize within the health system.

Unlike medical programs in the Veterans Administration and medical programs in the Department of Health and Human Services, our defense medical programs, which are equal to the entitlements, were not afforded any special protection under Gramm-Rudman-Hollings. It is certain that if we are required to absorb additional reductions in fiscal year 1987, disruptions in operations absolutely cannot be avoided.

Fear of this potential is causing great concern among the hundreds of thousands of Americans who are stationed in Europe today and their families.

This concludes, and I apologize for its length, sir.

Mr. ADDABBO. Thank you very much.

[The statement of Dr. Mayer follows:]

STATEMENT OF DR. MAYER

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE

I am pleased to have this opportunity to appear before you today to discuss the medical programs of the Department of Defense. With me are the three Surgeons General: Lt. General Quinn Becker from the Army; Vice Admiral Lewis Seaton from the Navy; and, from the Air Force, Lt. General Murphy Chesney. I would like to begin with a brief overview of the size and scope of the Department's medical activities and the budget we are requesting to support these activities next fiscal year. Following this, I will address several policy issues which I know are of particular interest to this subcommittee.

OVERVIEW

The fiscal year 1987 budget request for military medical operations is approximately $10 billion. This includes approximately $3.3 billion for the Army, $2.1 billion for the Navy, and $2.7 billion for the Air Force. Also included is over $1.7 billion for CHAMPUS, $127 million for Medical Information Systems, and $58 million for the Uniformed Services University of the Health Sciences.

This $10 billion-a-year military health care system operates over 500 hospitals and clinics, worldwide, which handle one million admissions and 50 million clinic visits each year. It is staffed by over 170,000 physicians, nurses, administrators, medical corpsmen and other support personnel.

This peacetime activity, which consumes the bulk of our budget, plays an important role in supporting our medical readiness mission, is a valuable form of compensation helping recruiting and retention, and an equally valuable teaching and training setting in which our military medical professionals maintain and improve upon their treatment skills.

Mr. Chairman, I am aware that these statistics are not new to you. This Subcommittee, more than most, has played a significant role in the many changes which have occurred within military medicine in recent history. And, while we have not always agreed on particular solutions to particular problems, I am very much aware of the positive influence your counsel has had on the system as a whole. In no small measure this is due to the fact that you have consistently viewed military medicine within the context of a single system — not four or five separate systems. And, as I have said to you before, both Secretary Weinberger and I share that view with you. It is from this perspective that I would now like to discuss several key issues.

MEDICAL READINESS

Military medicine has two vitally important missions which compete for limited resources — the primary mission of readiness and the peacetime mission. Last year, I reported on the extensive field reviews ordered by Secretary Weinberger of our overall medical readiness capabilities in Europe and in the Pacific. Progress has been made in correcting the problems highlighted in these reviews and I would like to review some of the accomplishments of the past year.

Quick Response Teams

The most outstanding achievement in Europe has been development of a capability to respond with highly skilled, completely equipped teams of people, who on a few moments notice can embark for anyplace in Europe or the Middle East if the need arises.

The Army, for example, has put together a very rapidly deployable 100-bed field hospital that can be picked up, relocated, and become operational within 24 hours. The team of physicians, nurses, and other support personnel accompanying this equipment can be ready within a few hours to perform the kind of casualty sorting and immediate intervention we know saves lives. The Navy and the Air Force have also established several quick-response medical teams, each consisting of physicians and support staff as well as supplies and equipment.

The Air Force, in addition, has four air transportable hospitals in Europe which are exercised constantly. These contain a surgical area capable of handling two operating tables and even radiology and laboratory capabilities.

To effectively manage these quick-response assets, current plans call for a joint-service control team to be activated at European Command Headquarters whenever a crisis develops.

European Command Surgeon

Another significant action was the establishment by the Office of the Joint Chiefs of Staff of the position of Command Surgeon in Europe as a full-time, flag-rank medical officer.

I remain convinced that to be truly effective in both peacetime and war, the position of Command Surgeon must have clear directive authority over all medical assets within his geographic command. Only then will the command and control issues raised by past reports, and reiterated by your own Surveys and Investigations Team just last month, receive the full attention they deserve. I have asked the Chairman of the Joint Chiefs of Staff to accept this proposal as a joint staff initiative.

Single Logistics Manager

Another area of concern to me was how best to manage the enormous amount of medical supplies required in the European theater. The Zimble Report indicated, and I agreed, that efficiencies could be gained with a single Service acting as theater-wide manager. I am pleased to report that a six-month test is underway to determine if the Medical Material Center run by the Army in Europe can serve theater-wide interservice requirements. If the test is successful, the Army will operate a single medical supply system.

Admiral Zimble

Mr. Chairman, I am equally pleased to report that Rear Admiral Jim Zimble has just joined my staff as the Deputy Assistant Secretary of Defense for Strategic Planning and Medical Program Management. Admiral Zimble's very thorough report on Medical Readiness in Europe, proved to be extremely valuable to me last year in our efforts to raise the level of awareness of our problems and, more importantly, raise strong support for the policy changes and resources needed to address those problems. As one of his highest priorities, I have charged Admiral Zimble with developing a worldwide masterplan for medical support including the establishment of an integrated medical mobilization plan for both peacetime and wartime.

Manpower

Perhaps the most difficult task of military medical planners involves determining manpower requirements, both in terms of total numbers and medical specialties, and in determining what the appropriate active/reserve mix is to adequately meet contingency requirements. In the past, each of the Services used fundamentally different methods to estimate the manpower required to perform a given workload. Development of a common methodology has been one of my highest priorities. I am pleased to report that we are finally approaching a resolution with development of a computerized model, the Medical Planning Module (MPM) of the Joint Operation Planning System (JOPS). Some improvements are required in the data base before it will be capable of predicting the full range of wartime medical requirements, but it clearly contains the correct logic for making those predictions. These changes are currently being made and I have directed all three Services to utilize the MPM in developing Fiscal Year 1988 and subsequent requirement submissions.

It is critical that manpower allocation decisions be made on the basis of their contribution to wartime readiness. I am pleased to inform the subcommittee that, for the first time, the official Defense planning guidance provided to the Services clearly directs that medical manpower allocations will include only that manpower required for wartime before reserve forces could become available. No additional manpower shall be allocated to the active force unless the use of such manpower is the most cost-effective means of achieving health care objectives in peacetime.

The Services have also been directed to limit the number of active duty physicians trained in noncritical wartime specialties to currently programmed levels and to direct any manpower resources made available to higher-priority shortfalls in the wartime specialties.

Finally, the guidance directs a number of initiatives designed to improve the medical readiness of our reserve components. These include preassigning certain critically needed physicians and nurses and improving medical reserve recruiting efforts. In these efforts we have been working very closely with Assistant Secretary James Webb and his staff, who have been very supportive and who share our concerns for this critical area. Mr. Webb and I intend to develop quickly a series of special innovative initiatives to enhance our ability to cure medical manpower requirement shortfalls in the reserves.

Deployable Medical Systems

I want to acknowledge the strong support you have given us in our efforts to procure standardized, deployable medical systems. The funding levels provided in the Fiscal Year 1986 Continuing Resolution go a long way toward assuring that we will meet our target of having sufficient numbers of these vital assets by 1990. However, Mr. Chairman, I must point out that we also need facilities in which to store these systems. While we did finally receive funding for two facilities in the Pacific this past year, we must gain approval for several additional sites worldwide. I appreciate some of the concerns expressed by your colleagues regarding the level to which the three Services' planning efforts are integrated and I believe the worldwide masterplan for medical mobilization and contingency facilities being developed by my staff will firmly lay those concerns to rest. I am anxious to work with you and the Subcommittee on Military Construction to move these efforts successfully ahead.

Project MERCY

I can also report continued progress with our hospital ship program. Both the USNS MERCY and USNS COMFORT are well along and ahead of schedule in their conversion from oil tanker to hospital ship. We hope to christen the MERCY this summer; and, while it is primarily a vital readiness asset, I hope to give it an important peacetime mission as well--serving the traditional role of all of medicine: service, education, and research.

Host Nation Support

We have made substantial progress over the past two years at establishing new agreements with our allies and in clarifying existing ones. These efforts involve not only the use of land and facilities, but also provide for interim assistance in hands-on medical care until our deployable facilities become operational. I must caution, however, that reliance on host nation medical support provides us with several significant problems and is in no way a realistic solution to our medical readiness shortfalls. If we are ever engaged in a major conflict in Europe, it is highly likely that our allies will also be engaged. The strains this will place on their ability to deliver on these promises of medical support to us will be tremendous.

COST CONTAINMENT

I want to assure you that we have not neglected our peacetime mission by focusing our efforts on medical readiness. Indeed, we are embarking on a bold plan which will serve both our peacetime and readiness efforts very well.

CHAMPUS Reform Initiative (Project IMPRINT)

The CHAMPUS Reform Initiative is designed to address several serious problems in the military health services system. These involve issues of access to care, the price of that care to both the beneficiary and the government, the quality of care and the ability of our current system to serve our readiness needs. We plan to adopt innovations like those that have made private sector health programs less costly and complex. We want to substantially increase access to primary outpatient care, increase the ability of military hospitals to provide specialty and inpatient services most related to wartime medical and surgical specialty needs, and decrease the costs our beneficiaries pay on those occasions when they purchase care in the civilian sector.

We seek to maximize our nationwide buying power by establishing three regional umbrella contracts, covering the entire United States, under which the contractors, for a fixed sum, would become responsible for paying for the approximately 25-30% of DoD beneficiary health care which is purchased from civilian sector providers. Because the contractors would be financially at risk for any care provided in the civilian sector, they will have the incentive to organize high-quality, cost-effective civilian hospitals and physicians into preferred networks that will offer services to our beneficiaries at reduced costs.

Since we began developing this initiative last year, a great deal of misinformation has surfaced and spread concerning the potential impact of our efforts and I would like to take this opportunity to set the record straight.

Above all, I want to emphasize that these contracts will have very specific requirements regarding quality assurance and will be awarded on the basis of the quality, cost effectiveness, and attractiveness to beneficiaries contained in the proposals. They will not be awarded on the sole basis of 'low bid'.

We have no plans to reduce benefits available to any eligible beneficiary. We have no plans to close the doors of military hospitals and clinics to dependents and retirees. Currently, 25 to 30 percent of all beneficiary care is provided outside military hospitals and clinics in civilian settings through CHAMPUS; that amount will not be substantially increased. One of the most significant improvements for all beneficiaries that will be made possible is increased access to primary care. We plan to require the umbrella at risk contractors to establish primary care centers similar to the Army's popular PRIMUS clinic in northern Virginia, in areas with overcrowded military hospitals.

Contrary to some reports, we are not going to fire our pediatricians in uniform, or abolish non-surgical graduate medical education for all physicians. What we are attempting to do is to direct our future acquisition efforts at those physician specialties which most closely satisfy our readiness mission requirements, and fine tune our graduate medical education efforts to best meet the needs of the entire system.

Mr. Chairman, this is obviously a complex and difficult effort. But, I am determined to pursue it because I believe it will increase both the quality and availability of medical care to all beneficiaries at lower costs to our beneficiaries. We hope to issue a Request for Information (RFI) this spring and to be in a position to issue a competitive Request for Proposals (RFP) in the fall.

I hope to have in place by October 1987 a replacement for our current outdated self-insurance system, one of the few large purchasers of health care to still reimburse on a billed charges basis with none of the discount arrangements now so widely available to prudent buyers of civilian health care.

CHAMPUS/Medicare Link

We are actively pursuing additional cost containment initiatives as part of our 1987 legislative program. One initiative we are proposing would require hospitals operating under Medicare reimbursement agreements to also accept CHAMPUS reimbursement at prospectively set rates. While authority has been legislated to enable CHAMPUS payments to be based on prospective payment systems similar to Medicare, there exists now no leverage to encourage hospitals to participate on that basis. The change we are proposing to the Social Security Act will link Medicare and CHAMPUS participation resulting in an estimated annual savings of over $150 million. This proposal is included in the still pending Omnibus Reconciliation measure for Fiscal Year 1986.

Coordination of Benefits

Another initiative proposed last year and also in the Reconciliation Bill would overcome a major problem with exclusionary clauses included in private health insurance contracts. These exclusions effectively limit our ability to obtain reimbursement for medical care provided in military facilities to beneficiaries who also have private health insurance coverage.

The proposed legislation would permit us to collect payments from the private health plans for the cost of this care and, when fully implemented, is expected to result in future year savings of more than $200 million a year. A similar coordination of benefits provision in the CHAMPUS program has successfully collected hundreds of millions of dollars.

QUALITY OF CARE

Mr. Chairman, I am pleased to report that again in 1985 we have continued to expand upon and improve our quality assurance efforts to make certain that the health care our beneficiaries receive is the best available. New directives were issued regarding Credentialing and Licensure of Health Care Providers and restricting off-duty employment. In addition we will soon be issuing a new Directive addressing the management of emergency medical services.

But, as I told this Subcommittee last year, I am very much aware that plans are not results and directives and policy statements alone do not assure quality. I pledged then to closely monitor the implementation of these policies and I am pleased to report that we have taken a giant step in that direction with the recent award of a contract for civilian peer review of care in all DoD hospitals.

External Peer Review

The information gained from these reviews will help military hospitals further identify any quality of care issues and, to the extent that similar data becomes available elsewhere in American medicine, provide a database for comparision between military medicine and other elements of American medicine.

About 15 percent of the one million annual admissions in our hospitals will be reviewed after discharge and the care given measured against standard criteria.

All medical charts reviewed will be screened against a standardized check list of 18 indicators of potentially poor care which is already used by military quality assurance personnel to screen all hospitalizations.

Inpatient care reviews will focus on all readmissions within 14 days of discharge from previous hospitalization; all surgically related deaths; all cases of neurological deficit related to anesthesia; all cases of organ failure not present at admission; and all post-operative or post-procedure complications, for example, infection.

Emergency services reviews will examine all unplanned returns to the emergency room within 48 hours of previous treatment; all patients who die either in the emergency room or following admission through the emergency room; and all patients dead on arrival when emergency transportation was the responsibility of the military hospital. These are only some of the areas to be covered by the review process.

I remain convinced that the overall quality of care in military medicine is equal to, if not better than, care overall in the civilian sector, despite a relatively small number of highly visible tragic instances of medical mischance. But the fact remains that there has been no objective way to measure overall quality of care in either the civilian or military sectors and, therefore, no precise way to compare quality. I am convinced that the creation of this civilian-military partnership for quality and excellence will build credibility and confidence in the quality of military health care and will complement the extensive quality assurance program we have already put in place.

Internal Audits

Military medicine must be the most closely scrutinized and monitored segment of American medicine. As of this January , no less than 39 active separate audits were being conducted by the various Inspectors General and auditors of the Department of Defense and the General Accounting Office. I welcome this scrutiny and recognize the need to maintain a constant vigil on our quality assurance efforts, but caution that we must not reach the point when the resources devoted to respond to such inquiries detract from our ability to provide and document the quality care we are all seeking.

Automated Quality of Care Evaluation Support System (AQCESS)

A final note in this area involves the Automated Quality of Care Evaluation Support System or AQCESS. This state-of-the-art micro computer-based system will provide all military inpatient treatment facilities with an interactive database capability for monitoring the quality of hospital care and for improving the effectiveness of risk management activities. Installation is well under-way, with systems operational in 133 hospitals at the end of January with the remainder scheduled to be operational by the end of March.

SURVEY OF DRUG AND ALCOHOL ABUSE

The preliminary results from the 1985 Worldwide Survey of Drug and Alcohol Abuse among military personnel have recently been received and reviewed by my office. These data, though not yet analyzed extensively, provide evidence that while alcohol abuse and drug abuse continue to be problems among the military population, the Services have maintained progress in curbing significantly the rates of abuse. In 1980, 27 percent of military personnel surveyed reported use of drugs within 30 days of the survey. In 1982 that rate dropped to 19 percent. The 1985 data indicate that the rate of abuse within 30 days has dropped to 9 percent a 67% drop in four years. Overall, 13 percent of the military personnel in 1985 reported nonmedical drug use in the past 12 months and 3 percent reported loss of productivity due to drug abuse during the past year.

Marijuana remains the illicit drug of choice with use reported by 7 percent during the past 30 days and 11 percent in the past 12 months. Usage was highest in the lower enlisted ranks with 11 percent of the E1s through E3s reporting use of marijuana during the past 30 days and 19 percent during the past 12 months.

The 1985 survey results indicated that 12 percent of the military population reported that they were heavy drinkers (defined as five or more drinks per occasion at least once a week). Lost productivity because of alcohol use during the past 12 months was reported by 27 percent of the military population compared to 34 percent reported in 1982.

A more extensive analysis of the survey results will be available in the final report which is due by the end of March. I will provide that report to you, as soon as possible.

CONCLUSION

In conclusion, Mr. Chairman, thanks to the tremendous efforts of thousands of dedicated men and women who serve the military medical system around the world; thanks to their efforts, much has been accomplished this past year to improve upon the greatness of that system. However, the task is not yet complete. In medical readiness we need to capitalize on the gains we have achieved in acquiring deployable systems by focusing more attention on other critical areas such as manpower and command and control.

We can never rest in our efforts to maintain and improve upon the quality of care we deliver to our beneficiaries. And, we must always be open to management innovations which may enable us to be more efficient and cost-effective.

On this last issue of costs and cost containment, I would like to comment briefly on the impact of Gramm-Rudman-Hollings and the entire budget reduction effort. We are making every effort to insure that the reductions for Fiscal Year 1986 are carried out with the absolute minimum amount of disruption to medical program operations. You should be aware, however, that unlike medical progams in the Veterans Administration and the Department of Health and Human Services, our medical programs, which are essentially entitlements, were not afforded any special treatment under Gramm-Rudman-Hollings. Certainly, if the program is required to absorb additional reductions in Fiscal Year 1987, disruptions in operations will occur.

This concludes my prepared statement, Mr. Chairman. I will be happy to answer any of your questions.

Mr. **Addabbo**. General Becker, U.S. Army.

Opening Statement of General Becker

General **Becker**. Mr. Chairman, members of the committee, I am very pleased to be here.

I have been in office one year today and it seems like 100, but it has been a very enjoyable year, a tough year with many challenges.

My estimate is that Army medicine is overall excellent. We have some problems and we have dealt with many of them throughout the past year. We have suspended the credentials on 41 of our practitioners and had to eliminate 11 of them. All the credentials of our practitioners have been verified with their schools, with their training sites, et cetera.

We have tightened the accession process to the point that it is very difficult to get into our system now without being an outstanding practitioner.

The commanders and their staffs now rapidly react whenever there is an untoward event. If it is a practitioner error, they are suspended and the investigation is carried out quickly and thoroughly and the corrective procedures are put into effect. This has been a considerable turnaround as I have seen it in the past 12-14 months.

Media relations with the Army medicine has improved, I believe, a great deal and the morale of our people is improving, although I am not sure NBC Nightly News last night helped it much. We run a high volume, high risk business. We see 62,000 patients a day, and admit over 1,100 a day, so a small percentage of those can be problems.

Our major problem today is a shortage of ancillary personnel. We figure it is approximately 6,500 people. That is if we want to continue to do the workload at the rate which we are doing it today and not cut back; that is, cut out any of the lower priority care.

With your help and the help of the Army staff this has been fixed, this shortage of people in the budget and in the POM. This year we are going to fix the intensive care units and staff the emergency rooms. Our motto today is "staff up or cut the workload," and we are not in any great position to cut the workload.

This would impact on retired and their dependent care. We all know the consequences of that. There is no savings to the government when we do that. They are covered by CHAMPUS and medicare and the government must pay.

I believe that readiness is improving, that DEPMEDS equipment is being purchased, all units will be equipped by 1993.

We have approximately $1.7 billion in the program and in the budget, and we are in the process of purchasing this equipment at the present time. The reserves are improving, the number of doctors and nurses is increasing.

The continuing shortage of surgical specialists is our paramount problem. We may need help to fix this. Busy surgeons are hard to get into the reserves.

We have several initiatives underway or in planning, the number of surgeons has increased in the reserve, but not enough and it is our, I believe, major difficulty with readiness today and we may need some enticement to get them in along with the operating room nurses and the nurse anesthetists to fix our reserve problem.

The Army medical department in the past has looked after its troops and it will continue to do so in the future.

Thank you very much.

Mr. ADDABBO. Thank you.

[The statement of General Becker follows:]

Mr. Chairman and Members of the Committee, I am Lieutenant General Quinn H. Becker, The Surgeon General of the Army. It is an honor to have this opportunity to appear before your subcommittee to discuss the Army Medical Department (AMEDD); its' readiness for combat and contingency operations; and our peacetime health delivery system. I value your continued interest and I am deeply grateful for your staunch support in the past and I acknowledge the vital role your support will have in the future.

Military medicine serves a multi-faceted mission. The military medical system provides crucial quality care to our soldiers during combat and ensures their health and their families' health during peacetime; it conducts extensive research to protect lives of soldiers who are deployed worldwide; and it provides training and knowledge to our international allies.

I would like to thank the Congress for their active endorsement of the programs the Army Medical Department is pursuing by providing necessary funds for medical enhancement, medical readiness and AIDS research and treatment. The medical enhancement funding has allowed the AMEDD to begin correcting the serious staffing problem at Madigan Army Medical Center which threatened their continued accreditation, and has also provided increased staffing in the high risk areas of emergency rooms and intensive care units at other medical centers and station hospitals.

AIDS is a tragic problem which poses a significant health threat to the nation and the military. The Army Medical Department is committed to attack AIDS through research, education, treatment and prevention. The AMEDD, as the executive agent for the Department of Defense for research of infectious diseases, has made valuable contributions to the body of knowledge and data regarding the transmission of HTLV-III and progression of AIDS. The Army has recently announced a comprehensive policy on AIDS which calls for testing all soldiers of the Active Army, National Guard, and Army Reserve for HTLV-III antibody and to treat active duty soldiers infected with HTLV-III. The policy is intended to ensure continued readiness of the force, to protect the fitness of Army personnel and their families.

Military medicine is practiced by extremely high-quality, proud professionals who are dedicated to serving our soldiers and their families. Unfortunately, the quality of military medicine has been distorted in the media for the past several years through misleading generalizations and nonrepresentative tragedies. As The Surgeon General, I am dedicated to correcting this false perception, and I believe that we are now receiving a more balanced perspective in the press. It's critical that the scope of our work be realized. We are a health care system that on the average admits a patient every 1.2 minutes to one of our 50 hospitals; delivers a baby every 11.5 minutes; has 6,700 beds occupied every day; conducts, on a daily basis, over 61,000 outpatient visits in these hospitals and in over 275 clinics which serve the soldier at locations away from the hospital; administers 10,000 immunizations, performs 40,000 x-ray exposures, issues 92,000 prescriptions; and generates 640,000 laboratory tests daily. In addition to the hospital work, 260 dental clinics and four area dental laboratories provide 81,000 dental procedures and 36,000 dental laboratory procedures on a daily basis. In a system as large and diverse as ours we do have accidents and untoward incidents, some with tragic results, but they are by far the exception. Military medicine is not terminally ill. To pull the plug on it would be the equivalent of pulling the plug on a patient who is responding well to treatment.

Our major program is the enhancement of medical care. It's a bold program requiring the overall support of the Army Staff to ensure that adequate resources are available to make it happen. The objective is to improve the accessibility and the quality of care in medical treatment facilities while increasing patient satisfaction. The first objective is the creation of a primary care model for all active duty families. The second objective is to improve the patient appointment system. This includes hiring more clerks and receptionists as well as installing automation to assist in managing the scheduling process while providing excellent data for management. A third objective is to obtain additional ancillary support personnel - nurses, physical therapists, occupational therapists, dieticians, corpsmen, lab, pharmacy and X-ray technicians. These additional people, totaling 6,400 manyears, will increase personnel support for physicians in the clinical environment, relieve physicians from performing non-professional functions, increase the effectiveness and efficiency of the health care delivery system, and support the Army Family Action Plan to improve access for military family members to care.

The Secretary of Defense has defined clearly the emphasis on combat readiness. The relationship between peacetime and wartime medical care is a complex one. Combat readiness necessitates the use of highly developed medical skills in addition to the logistical aspects of having equipment and personnel in the right place at the right time. As the Surgeon General, I will continue working to ensure our readiness posture.

There is a misconception that peacetime care is exclusive from wartime readiness when, in fact, they complement each other. It is imperative that physicians have the opportunity to practice fully their skills in peacetime in order to be prepared in the event of war. This broad spectrum of practice relies on serving beneficiaries who have more complex and more serious ailments than the normal population of active duty soldiers. We must balance this need for a diversified practice with the fact that there are geographic areas where the dense volume of beneficaries requires innovation in determining which beneficiaries should be treated by alternative means.

We, like the rest of the Army, must be prepared to go to war at anytime. With this peacetime force, we must be capable of making a smooth transition to a wartime posture. If deterrence fails, we must be able to provide medical support in a combat environment with little or no advance notice. Medical readiness has been the subject of recent reports which question the ability of the military to provide adequate health care to US servicemembers in combat. These reports have painted a rather bleak picture of the current capabilities of the services. Though there is much to be done, the reports do not address the actual and programmed improvements which have taken place over the past five years.

During the early 1980s a number of actions occurred. A medical planning cell was established in the United Kingdom to survey contingency hospital sites and receive equipment sets for five General Hospitals in support of NATO. Two General Hospital sets were forward deployed in Sagami, Japan in support of Northeast Asia. Similar efforts have taken place in Southwest Asia. Renewed emphasis was placed on securing host nation support agreements in all theaters for critical health care delivery services during hostilities. The AMEDD is actively involved in Tri-service planning and cooperation, participating regularly in joint service readiness committees such as the JCS Medical

Steering Committee and the Defense Medical Readiness Policy Advisory Committee. We also support extensively the Armed Forces Institute of Pathology, Military Blood Program and the Armed Services Medical Regulating Office, to list just a few. Fully equipping all deployable medical units in both the active and reserve components became a major programming objective of the Army. Finally, the Defense Medical Standardization Board, with Tri-service representation, developed the Deployable Medical Systems which provide standardized major components for the four Services field hospital units.

Planning for operations is conducted using the Joint Operations Planning System (JOPS). Medical planners determine requirements using the Medical Planning Module (MPM). This is a subsystem of the Joint Operations Planning System designed to assist the Theater Commanders in operational plan development. The module, with proper scenario inputs, will provide hospitalization requirement data on beds, personnel, blood, class VIII supplies, operating rooms, the total number of admissions, returns-to-duty, and evacuees.

The Assistant Secretary of Defense (Health Affairs) has directed that the Services will use the MPM to determine wartime requirements for personnel beginning with the FY 88-92 Program Objective Memorandum (POM). In addition, he directed the Joint Chiefs of Staff to "enhance" the MPM so that it will produce requirements data for eight categories of personnel (Anesthesiologists, General Surgeons, Orthopedic Surgeons, other Surgeons, other Physicians, Nurse Anesthetists, other Nurses, all enlisted) instead of just total physicians. This enhancement has been completed and the "patient care factors" to produce the eight sets of requirements have been provided to the services and the enhanced MPM will be used to produce POM requirements.

In 1984, the Army expanded its program to fund fully equipment for 160 combat hospital units with 72,000 beds by 1991. Thirteen hospital equipment sets were purchased in 1984 for delivery in 1986-87. An additional 27 hospital sets were purchased in FY 85 for delivery in 1987-88. In FY 86, 30 hospital sets are scheduled for purchase. The FY 87 budget includes funding for 21 more sets. Funding is also included for the modernization of division level medical units. The funding stream over several years reflects a reasonable economic level of acquisition that can be properly executed. Beginning with the FY 86 purchase, lag time for delivery will be two years rather than three years as for the purchases in FY 84 and FY 85. All hospitals purchased will be the Deployable Medical Systems (DMS) generation of field hospital equipment.

Growth in health assets has been substantial over the last five years. US Army Reserve Troop Program units have grown from 925 physicians in FY 80 to 2,325 in FY 85; the Individual Ready Reserve from 666 in FY 80 to 1,762 in FY 85. The National Guard has gone from 417 to 812 physicians. Numbers of nurses and other specialists have experienced similar growth. Physician and Nurse recruiting for the reserve components has been enhanced through flexibility in training and service options for the medical professional while retaining a commitment in the event of mobilization. A major effort has been the development of the physician substitutability plan which matches physician training to needed wartime skills. As an example, pediatricians are trained and actually insert as many chest tubes as our internists, therefore, pediatricians can be substituted specialties required for wartime which are in short supply. However, personnel shortfalls still exist, especially in surgical specialties, operating room nurses, nurse anesthetists, and some enlisted specialties.

The growth realized in personnel assets since 1980 is expected to slow as recruiting concentrates now in the "hard" surgical specialty skills and ancillary staff which are more difficult to attract. Without considering the impact of training readiness or skill qualification, sufficient personnel resources can be made available to meet battlefield health care needs of the theater, even as the enhancements in medical equipment readiness come to fruition through 1993. However, when medical personnel resources are fully allocated to the combat theater, it should be clearly understood that the Army medical support remaining in the Continental United States would be severely limited. This is attributable to personnel shortages in the remaining Continental United States base system, particularly the Individual Ready Reserve. Therefore, health care for returning casualties would rely heavily on the Veterans Administration and the National Disaster Medical System.

Since current programs will not fill existing manpower gaps, new initiatives were developed that will bring Reserve Component medical personnel assets to the required levels by 1995. These programs are: education stipends to residents/students in selected skills for obligated reserve duty; National Augmentation Detachment (NAD), intended to overcome geographic barriers to recruiting selected skills; and enhancements in benefits for selected skills, participating in the individual ready reserve and the individual mobilization augmentee program. However, final implementation of the programs is dependent on funding. Until such time as the new programs are implemented, an alternative solution is the peacetime registration of health professionals. This appears to be the only means of meeting near term mobilization requirements given existing shortfalls in the critical skills.

Wartime training programs have been implemented throughout Army Reserve and Army National Guard medical units that are in compliance with requirements of two new DOD wartime training programs. All units are aware of their wartime alignment. All units have met or are in communication with their wartime headquarters and have received mission guidance, deployment information, and training priorities. Most units have participated in either command post exercises or field training exercises with one or more of the units that they will be associated with in wartime. More importantly, all units have plans for such exercises over the next 2 years. Early deploying Reserve and Guard units are scheduled on a three to five year cycle for overseas duty training. Also, most headquarters units have sent unit representatives to participate in command post exercises with their wartime active components overseas. Currently, there is a system established for the peacetime chain of command to monitor wartime training and to coordinate exercises.

To further enhance readiness, active and reserve component medical personnel have been active participants in the Security Assistance Program and the AMEDD can point proudly to recent readiness accomplishments; Mobile Medical Training Teams (MTT) in El Salvador; medical support to the Regional Military Training Center in Honduras; and support of large scale training exercises in Honduras. The MTT has trained 884 combat medics, 19 senior medical NCO's, 39 medevac aidmen, 20 dental technicians, 58 intensive care nurses, and 9 biomedical technicians. In addition, they have improved the medical supply system, provided field sanitation guidance, assisted in the completion of the Military

Hospital, provided combat surgery instruction, initiated a medical civic action program, participated in structuring a unified military medical system and created a 72 man Medical Service Corps. The requirement to support training of US forces, as well as the needs of our Central American Allies for medical training and humanitarian medical support, will dictate our continued AMEDD support.

As the Surgeon General I am demanding we comply with the direction of Congress that every practitioner be licensed and appropriately credentialed. We must continue to check ourselves to ensure that credentials committees act on problem practitioners. During 1985, 49 physicians had their privileges limited, suspended or revoked and 11 physicians were separated in a decredentialed status.

I have directed that when a serious problem occurs in one of our medical treatment facilities I am immediately notified; that a local investigation be initiated; that the provider's privileges be suspended as appropriate; and that the quality assurance personnel act promptly. Patients and family involved will be represented by one of our hospital staff members to help them get information they need about what happened and what we are going to do about the problem. All our patients and their families are treated with respect and dignity. I expect the Commander to take prompt action on providers with suspended credentials. Based on the results of the investigation the Commander can reinstate the providers privileges, require retraining, increase supervision or initiate elimination from the military.

The provision of quality health care has the highest priority within the Army and the Army Medical Department. Significant actions have been taken to ensure the highest possible quality health care in the Army. In July 1985 I designated a special task force to report directly to me on specific incidents requiring in-depth investigation as well as to assess and project potential problem areas. In the area of licensure and credentialing, this task force has checked the individual records of all Army physicians. All aspects of quality assurance (QA) are receiving increased attention and emphasis. New initiatives include:

o Development of the provider activity profile, which documents each provider's clinical and professional activities. The profile will be used by the credentials committee when considering the delineation of clinical privileges for the provider.

o Implementation of occurrence screening which is a quality assurance assessment technique to identify potentially important unacceptable or untoward results of medical or surgical treatment and to ensure timely staff review and analysis of these cases.

o Implementation of standardized forms for the delineation and evaluation of clinical privileges based upon the provider's clinical specialty or function.

o Reporting providers decredentialed at separation from service or employment to appropriate regulating (licensing) bodies.

o Monitoring all decredentialing activities within the Army Medical Department.

o Implementation of licensure requirements for military and civilian physicians, dentists, and clinical psychologists. These providers have a three-year period in which to obtain a valid, current license. Army nurses have been required to be licensed since 1928.

o Promoting QA through ongoing seminars: commanders conferences, deputy chiefs of clinical services conferences, teaching chiefs conferences, chief nurses conferences, national guard surgeons' management conferences, and annual QA coordinators short courses.

o Installation of the Department of Defense Automated Quality Care Evaluation Support System (AQCESS) has begun and is expected to be completed in FY 1986. The system will assist in occurrence screening, incident reporting, blood utilization review, and provider profile reporting.

The Army Medical Department Military Impaired Health Care Provider Program was established in January 1985 to guide commanders and supervisors in identifying and managing Army health care providers impaired by alcohol or drug abuse. This regulation gives the hospital credentials committee the responsibility of following the progress and performance of impaired providers as they return to duty from inpatient treatment programs. The Army currently is working with a tri-service task force to draft a DoD instruction which will stimulate all services to consider health care professionals as a high-risk group and to take appropriate measures to reduce the problem.

An adjunct to readiness is the training of AMEDD personnel. Graduate Medical Education of our physicians ensures that there are trained physicians available to treat the medical needs of our patients. This means that infants are delivered by obstetricians and fractures are set by orthopedists. The largest source of physicians entering the Army is from the Health Professions Scholarship Program (HPSP) and the Uniformed Services University of the Health Sciences (USUHS). These physicians are not specialty trained when they enter active duty. While they are completing training they are at the same time delivering care to DoD beneficiaries. Other AMEDD personnel are trained in the Warrant Officer Entry Course, Battalion/Brigade Pre-Command Course, AMEDD Officer Advanced Course, Combat Casualty Care Course, "All Corps" Basic Officer Course, and new and revised enlisted training courses.

The AMEDD's research arm, the Medical Research and Development Command, has produced some significant accomplishments, such as the Antibiotic-loaded wound dressing and the development of chemical warfare agent decontamination resins against mustard and nerve agents. Equally impressive is a microencapsulated antibiotic for slow release developed to control maxillofacial wound infection. Work is continuing on malaria sporozoite vaccines and the development of antiviral drug ribavirin. Research continues in the development of a vaccine that will provide protection against dysentery. The US Army Institute of Dental Research, is perfecting its synthetic biodigradable, biocompatible material that will replace and repair bone loss due to trauma. In the equipment area we are continuing to develop a field oxygen generating system, field radiographic and flouroscopic system, resuscitation devices for field use and a resuscitative fluids production system which uses potable water to produce surgical and intravenous fluids that meet FDA safety standards.

Congress, recognizing the significant threat which AIDS possesses to military readiness, and recognizing the Army's traditional role in solving public health problems, provided $40 million in the FY 86 appropriation for AIDS research. The unique features of the military population and the resources available provide a strong basis for a research program. This program will address five critical areas. A natural history study will study the total progression of the disease; the sequence from infection, factors influencing disease progression, recovery, or death. The evaluation of improved diagnostic methods will be undertaken. In cooperation with the National Institutes of Health, we will establish a military center to test drugs which might arrest the progress of the disease. Should a vaccine candidate prove promising in preclinical trials, the military will seek to define a suitable test population and perform a clinical trial. The Army will study immunological aspects of the disease and seek an assay for protective immunity.

While the AMEDD is fully committed to improving its medical readiness and peacetime health care, it is also actively pursuing numerous cost containment initiatives. However, to pursue simultaneously medical readiness, improve peacetime health care, and implement cost containment, requires significant tradeoffs, particularly in terms of productivity. For instance, AMEDD health promotion programs in support of readiness, such as the Over 40 years of age Cardiovascular Screening Program, physical fitness, field training,and the Exceptional Family Member Program are costly to the direct care system. Also, extensive quality assurance efforts are similarly expensive and reduce resources available for direct health care delivery. Therefore, in assessing the AMEDD's commitment to these programs, it is obvious that true productivity cannot be measured exclusively in the peacetime mode. There is a balance that must be maintained between peacetime health care delivery, readiness, and cost containment which meets the needs of the Army and yet adequately reflects true productivity and the proper utilization of resources. The Army, as executive agent for the Tri-service Performance Measurement Working Group, is developing productivity measures which will promote the efficient delivery of cost effective, quality care as well as eliminate incentives for over-utilization of services. Many additional initiatives have been developed in an effort to reduce health care expenditures without reducing quality and accessibility. These include emphasis on personal services contracts, demonstration projects and CHAMPUS cost containment initiatives.

The FY 84 Defense Authorization Bill included a change which raised the statutory compensation limits and authorized the use of personal services contracts for direct health care personnel. Military physician manning levels have improved over the years due in large part to the Health Professions Scholarship Program, the Uniformed Services University of Health Sciences, and improved compensation for military physicians. However, in spite of these gains, some specialties are still in short supply. Personal services contracts allow the Services to fill physician and other health professional shortfalls through contractual arrangements. These contractual arrangements may be less costly than the alternative, which is the CHAMPUS program. An AMEDD policy is being developed that will ensure the efficient use of resources by maximizing the ability of hospital commanders to use the various available supplemental resource tools, i.e., VA/DOD Health Resource Sharing Program, Joint Health Benefits Delivery Program, and Personal Services Contracting.

The Office of the Surgeon General proposed and the Army leadership has approved the Satellite Care Clinic concept. Implementation of the Satellite Care Clinic concept is a highly providing the medical care required in combat and peacetime. We are working aggressively to put the mechanisms in place that will ensure we provide quality health care. The progress we have made and are continuing to make should not be overshadowed by a few isolated instances of poor medicine. The key to this system is the 72,000 dedicated officers, enlisted soldiers and civilian professionals who provide concerned care to the Army. I personally am committed to working with the Congress to see that our mutual goals are attained and that soldiers and their family receive the type of medical care they deserve.

Mr. Chairman, that concludes my prepared statement. I will be happy to answer any of your questions.

Mr. **Addabbo**. Admiral Seaton, please proceed.

Opening Statement of Admiral Seaton

Admiral **Seaton**. Good afternoon, Mr. Chairman, and members of the subcommittee. Thank you for the opportunity to be here to discuss the status of Navy medicine and the challenges we face in fiscal year 1987.

My highest priority objective for fiscal year 1987 is to monitor the progress and timely delivery of the first of our new deployable medical systems—the hospital ships and the initial units of the fleet hospital program. These facilities are vital to our ability to carry out our wartime medical readiness mission.

Delivery of the first seven fleet hospitals in fiscal year 1987 will provide 2,750 beds that will be used to treat acutely injured patients in the combat zone. These facilities will be capable of supporting a heavy surgical workload and can be erected and ready to receive casualties within a matter of days.

I am greatly appreciative of the excellent support this committee has given to the fleet hospital program in the past, especially the two additional fleet hospitals in the fiscal year 1986 budget. I solicit your continued support for our fiscal year 1987 budget request to procure four 500-bed facilities.

As of today, our first hospital ship, USNS Mercy, is presently scheduled for delivery in November 1986 and the second, USNS Comfort, is presently scheduled to be delivered four to five months later. These afloat medical facilities will together provide 24 operating rooms and 2,000 beds capable of delivering acute surgical care in support of military operations. Present plans are to berth one on the west coast and one on the east coast.

Mr. Chairman, in July of last year, I convened a conference of the senior leaders of the Navy Medical Department and asked them to take a critical overall look at our health care delivery system, to identify the major issues, to talk about lessons learned, and to propose solutions within available resources.

This phrase, "within available resources," is important because of my view that actions over the last year by Congress, DoD, and Navy indicate that significant new growth in the Navy Medical Department resource base will not occur.

The message of the participants was very clear: The major day-to-day problem facing Navy medicine is the disparity between the demand for quality health care and the capability to provide such services within constrained resources.

In other words, demand placed on the Navy health care system continues to increase while the resources to respond have not increased commensurately. This situation has a potential to jeopardize the quality of care delivered to individual patients and requires correction.

Therefore, I have undertaken several initiatives to make the best use of available resources in an attempt to meet this demand.

These management actions are based on two important considerations: First, medical readiness, both wartime and peacetime, is our primary mission. Meeting the health care needs of active duty members in war and peace must remain our first priority. To satisfy all the demands of other authorized beneficiaries while maintaining medical readiness is beyond the present resource capability of the Navy medical department.

Second, the disparity between demand and resources cannot be allowed to lessen the quality of care we deliver.

The actions I have begun include: conducting studies to determine which Naval hospital facilities can be redesignated as infirmaries or clinics, and evaluating the reallocation of specific medical manpower to effectively use limited resources. These facilities are Oak Harbor, Washington; Lemoore, California; Cherry Point, NC; Patuxent River, Maryland; Millington, Tennessee; Corpus Christi, Texas; Philadelphia, Pennsylvania; and Newport, R.I.

This effort to realign limited medical resources demonstrates our commitment to fulfilling our medical readiness mission and providing high quality care. There just is not enough to go around and what we have must be spread wisely.

Sometimes I am asked, "Do you have enough manpower to do the job?" My answer is, "What job? What job do you want us to do?" Is our job caring for active duty only or is it to treat all authorized beneficiaries?

Let me make it very clear that we have the required manpower to perform our primary peacetime readiness mission of meeting the health care needs of active duty forces. There is also enough manpower left over to provide a great deal of care to active duty dependents.

However, resources are not available to fully satisfy the demands for services by retired personnel and their dependents. Consequently at many facilities there is some curtailment of some services provided to non-active duty beneficiaries by uniformed providers in the direct care system.

Let me assure you that our proposed actions to reallocate and consolidate medical resources is being driven by limitations in resource growth not by a desire to eliminate beneficiary services. We remain sensitive to the health care needs of all our beneficiaries. It would make me very happy if we could provide all services demanded to everyone.

Facilities reducing or losing services will identify and publicize available, alternate sources of care before medical personnel are reallocated. Congressional notification will be accomplished before any changes in the size of Navy facilities occur. Along this line, we also strongly support efforts by Dr. Mayer to correct problems in the CHAMPUS program and are hopeful that substantial improvements can be made.

I earnestly solicit your support of our initiatives. Your approval of Navy's fiscal year 1987 end-strength request is crucial to our efforts to continue to provide quality health care to both the operating forces and to as many other eligible beneficiaries as available resources will allow.

I am all too well aware that there has been a great deal of recent media coverage on Navy medicine which has caused some to question the quality of care delivered in our medical facilities. I must tell you that I too believe with Dr. Mayer that a system has been developed and is being implemented to identify incidents of substandard care. When deficiencies are uncovered, appropriate steps to correct the situation are called for.

I fully support civilian review of our facilities. I am convinced that the overwhelming majority of those who make up our medical community are doing an outstanding job and are committed to delivering quality care.

The goals I have described for the upcoming fiscal year will require careful planning and a willingness to make changes in our health care delivery system where necessary. It will take the combined understanding and support of the Congress and our civilian and uniformed leadership. We have developed an outlook which projects that "whatever we do, we will do it right."

I guarantee my personal commitment to that principle to ensure that we provide the highest quality care to those we treat.

Mr. Chairman, that concludes my testimony. I would be happy to answer any questions you may have.

Mr. ADDABBO. Thank you.

[The statement of Admiral Seaton follows:]

DEFENSE SUBCOMMITTEE
OF THE
HOUSE APPROPRIATIONS COMMITTEE
4 MARCH 1986

Prepared Statement of Vice Admiral Lewis H. Seaton, Medical Corps, United States Navy, Director, Naval Medicine and Surgeon General, Department of the Navy

Mr. Chairman and Members of the Subcommittee:

I am Vice Admiral Lewis H. Seaton, Medical Corps, United States Navy, Director, Naval Medicine and Surgeon General of the Navy. I welcome this opportunity to appear before you today to address the status of Navy medicine and the challenges we face for fiscal year 1987.

In July of last year, I convened a conference of the senior leaders of the Navy Medical Department and asked them to take a critical, overall look at the Navy health care delivery system, to identify the major issues, and to propose solutions within existing resources. This phrase "within existing resources" is important to highlight because of my view that actions over the last year by Congress, Department of Defense (DOD) and Navy indicate that significant new growth in the Navy Medical Department resource base will not occur. The conferees included the Fleet and Marine Corps medical officers, commanders of the eight geographic medical regions, hospital commanding officers, senior staff from my immediate office and representatives from the Naval Medical Command. Their message was resoundingly clear: The major day-to-day problem facing Navy medicine today is the disparity between the demand for quality health care services by our authorized beneficiaries (active duty, dependents of active duty and retired personnel and their dependents) and the capability to provide such quality services within our constrained resources. The problem is without a forseeable solution.

This mismatch between demand for services and our capacity to meet them is the direct result of insufficient manpower and fiscal resources. I have undertaken several initiatives to maximize available resources to attempt to meet this demand. These management actions are based on two important considerations.

- First, medical readiness, both wartime and peacetime, is our primary mission. Meeting the health care needs of active duty members in war and peace must remain our first priority. To satisfy all the demands of other authorized beneficiaries while maintaining medical readiness is beyond the present resource capability of the Navy Medical Department. As a consequence, the future will probably see a curtailment of some services provided to non-active duty beneficiaries by uniformed providers in the direct care system. It has always been my policy that non-active duty members be provided quality care to the maximum extent possible, however, those beneficiaries must remain a secondary consideration in directing medical command priorities.

- Second, the conflict between demand and resources cannot be allowed to lessen the quality of care actually delivered in Navy medical facilities.

The actions undertaken to ensure medical readiness while maintaining quality care include studying the realignment of resources allocated to selected Navy medical treatment facilities and evaluating the reallocation of physicians in certain specialties. So far we have submitted for approval allocations of general surgeons and obstetricians. Future submissions will include family practice, emergency room staff, and a general downsizing of several naval hospitals to infirmaries.

Although the implementation of these initiatives represents a major challenge for Navy medicine in fiscal year 1987, the highest priority objective for the upcoming fiscal year is to simultaneously ensure the timely delivery of our deployable medical systems. These systems are vital to our ability to carry out our wartime medical readiness mission. We are closely monitoring these programs to ensure the planned initial operating capability of the first units in fiscal year 1987.

MEDICAL READINESS

As previously stated, wartime medical readiness and operational support is the primary reason for the Navy health care system and remains its first priority. Medical readiness involves having the manpower, platforms, and training programs to ensure that combat forces can be medically supported in a major conflict or in special contingency situations. Our ability to meet wartime medical requirements rests on the future availability of deployable medical systems such as the fleet hospitals and hospital ships. Ensuring that these systems meet their initial operating capability (IOC) on time is the number one objective of the Navy Medical Department for fiscal year 1987.

The fleet hospital will deliver definitive health care through the use of prepositioned, modular, rapidly erectable, strategically relocatable medical facilities located in combat and communications zones close to the operation of combat units.

The combat zone fleet hospital will be used as a surgically intensive medical facility augmenting the organic medical elements of the Fleet Marine Force and will provide full resuscitative care to acutely injured patients in the rear of the combat zone. It will treat those patients who can be quickly returned to duty and stabilize those who must be prepared for evacuation to receive more extensive care. To fulfill this role, the combat zone fleet hospital is designed in both 250 and 500-bed configurations capable of supporting a heavy surgical workload and can be erected and ready to receive casualties within a matter of days.

The communications zone fleet hospital, intended to be located in the rear of the theater of operations, will provide more definitive, restorative medical/surgical care to those patients evacuated from the combat zone. Its capabilities include providing full resuscitation and emergency trauma care as well as subspecialty treatment to restore casualties for return to in-theater duty or for further evacuation to facilities located in the Continental United States (CONUS). These fleet hospital facilities are designed as a 500-bed self-contained deployable hospital and a 1,000-bed pre-sited fixed facility using buildings provided through Host Nation Support. They are capable of being fully operational in 5 to 10 days.

The IOC of the first seven fleet hospitals is scheduled for fiscal year 1987. Delivery of these facilities will provide 2,750 beds designated for operation within the combat zone and will have a significant, positive impact on the ability of Navy medicine to fulfill its wartime mission. In total, over 14,000 fleet hospital beds are in procurement, budgeted, or programmed in the Five Year Defense Plan. Your support of the fiscal year 1987 budget request to procure four 500-bed facilities which will become available in fiscal year 1989 will enable Navy medicine to continue its progress in achieving its wartime medical goals.

Congress has given excellent support for the actual acquisition of fleet hospitals. In fiscal year 1986, Congress appropriated funds for three 500 bed hospitals, two of which may require supplemental authorization. With respect to prepositioning units in-theater for rapid activation, however, Congressional action has not been as good. Not providing military construction funds for selected fleet hospital storage and operating sites will delay their activation. This will have a negative impact on our ability to provide prompt medical care in wartime.

We are developing a training program to achieve the full operating capability of the first fleet hospitals. Approximately 3,300 active duty and reserve personnel will be trained annually in fleet hospital assembly, activation and continued operation. The fleet hospital training program will provide instruction in:

- Hospital assembly and disassembly;
- Operations in a combat environment;
- Management of the assembly process under time constraints;
- Use of equipment in the fleet hospital environment.

Our goal is to train 100 percent of the staff of each fleet hospital and provide retraining every fourth year. In each training cycle the hospital personnel will train for the receipt, triage, treatment and transfer of simulated casualties to other hospitals in the communications zone or to CONUS.

The other major element of our deployable medical systems is the hospital ship program. Two San Clemente class crude oil tankers are being converted into afloat medical facilities designed to provide acute surgical care in support of military operations. Each ship will contain 12 operating rooms and 1,000 beds and will provide medical support ranging from intensive care to moderate, light and limited care. Let me emphasize that these are hospital ships built to care for combat casualties. They were not designed nor intended to operate as general service hospitals. Such services as pediatrics, obstetrics or the full range of outpatient services are not part of the designed hospital ship capability. A possible secondary mission of this program is to provide a mobile surgical hospital capability for disaster relief operations worldwide.

The first ship, USNS MERCY, is presently scheduled for delivery in November 1986 and the second, USNS COMFORT, will be delivered four to five months later. Plans are to berth one on the West Coast and one on the East Coast. Once operational, these ships will be maintained in reduced operating status pending their use in a contingency operation or other emergent situation. Within five days following notice of activation, each ship will be capable of being underway for mission support. Their inherent mobility and flexibility in levels of care will provide an extremely valuable asset during combat operations as shown in past wars.

Reserve Initiatives

Our wartime medical readiness capability also depends greatly upon the use of Reserve medical manpower who will play a critical role in wartime mobilization. In a mobilization situation, designated active duty medical personnel assigned to CONUS fixed medical facilities will quickly augment and staff early deploying units such as fleet hospitals, hospital ships, the Rapidly Deployable Medical Facility, the Fleet Marine Force, and designated ships and squadrons. Some reserve medical personnel will be required as soon as possible thereafter to staff CONUS medical treatment facilities to enable them to continue operations. A large number of designated and trained reservists will fill the critical need to man the major portion of the fleet hospital system and an overseas contingency hospital.

The Navy wartime requirement for Reserve medical personnel, based on present plans, is greater than today's Reserve strength. This is especially true for surgeons, nurses and enlisted personnel. It will take highly intense and successful recruiting efforts to overcome these shortages.

The Director, Naval Reserve has initiated a number of innovative incentive programs to meet wartime requirements. The Physician Reservists in Medical Universities and Schools and the Reserve Flexibility programs allow alternatives to routine drilling requirements for physicians and other surgical specialties. To obtain the required number of basic hospital corpsmen, we use the Navy's Sea and Air Mariner (SAM) program in which recruits attend initial active duty training and Class "A" Hospital Corps School. A component of the SAM program, the Reserve Allied Medical Program, is designed to provide educational funds for personnel training in civilian institutions to become skilled technicians in such areas as x-ray, laboratory and operating room technology.

Current attainment projections indicate that even with these liberal training and recruiting initiatives, Reserve medical personnel will still fall short of the total requirement. This issue will be addressed in the Navy's Program Objective Memorandum for fiscal years 1988-1992.

To ensure that reserve personnel can perform their wartime mission, unit commanders and their personnel are advised of their mobilization assignments and, where possible, train at that assignment, or at a similar organization or facility. The Reserves will actively participate in training for the fleet hospital system.

DIRECT HEALTH CARE DELIVERY SYSTEM

As I have stated, senior leadership of the Navy Medical Department at the Key Commander's Conference took a critical look at the operation of Navy's medical delivery system and concluded that satisfying the demands of all beneficiaries while maintaining the primary mission of medical readiness is beyond the present resource capability of Navy medicine. Demand placed on the Navy health care system continues to increase while the resources to respond have not increased commensurately. This pressure situation has a potential to jeopardize the quality of care delivered to individual patients and requires correction. To ensure quality care for Navy medical beneficiaries actually treated, we are considering ways to most effectively distribute limited medical resources.

Studies are underway to determine which hospital facilities can be redesignated as infirmaries or clinics. The facilities under consideration have common features warranting a critical analysis, such as a low average daily patient load (fewer than 85 patients). As hospitals with low operating capacity, their cost-effectiveness was questioned in the General Accounting Office report, "DOD Should Adopt a New Approach to Analyze the Cost-Effectiveness of Small Hospitals." The report identified the need to develop criteria to determine when providing inpatient services at small military hospitals is economical and necessary to meet the readiness or peacetime benefit missions. It concluded that each small military hospital should be analyzed to determine its potential for conversion to an outpatient clinic. The Blue Ribbon Panel on Sizing DOD Medical Treatment Facilities, established by Congress, also recently made recommendations. The Panel stated that medical readiness requirements should be the primary criterion for determining the size of the facilities in the direct care system. It concluded that potential utilization of civilian health care capacity should be thoroughly evaluated to ensure the Military Services provide care only when either the readiness mission or cost-effectiveness criterion dictate this course of action. Our evaluation of the appropriate size of several inpatient facilities are in response to these recommendations. No decision on the sizing of the facilities will be made until resources, workload and sources of alternative care have been analyzed. Congressional notification will take place before any contemplated changes occur.

In addition, we have begun to evaluate the reallocation of specific medical manpower to make the best use of limited specialty physician resources. Reallocation of active duty medical personnel in obstetrics/gynecology (OB/GYN), family practice, general surgery and emergency medicine is needed to maintain the full staffing of operational units and to staff overseas or isolated CONUS medical facilities where no alternative medical care is available. These initiatives will result in the reduction or loss of services at some CONUS facilities in order to secure the needed care at other locations. There just is not enough to go around and what we have must be spread wisely.

The proposed reallocation of physicians to meet medical care requirements will be based on my following priorities:

(1) Operational units - We will care for active duty wherever they serve.

(2) Outside Continental United States (OCONUS) - Alternative care is not available.

(3) Isolated CONUS - Alternative care is not available.

(4) Teaching programs in support of the first three priorities - We must "grow our own" to do the first three. We cannot recruit enough quality providers to accomplish the first three priorities.

(5) All others - Alternative care other than by uniformed active duty providers is available in the area.

While the primary mission of the Navy Medical Department is to provide medical care for active duty members, it is truly our heartfelt attitude to remain sensitive to the health care needs of all beneficiaries. A strong effort is being made to balance availability of care in Navy medical facilities with that from alternate sources to ensure that medical care is available. Facilities reducing or losing services will identify and publicize alternate sources of care for beneficiaries before medical personnel are reallocated. The Military Services are working closely with the Assistant Secretary of Defense for Health Affairs (ASD(HA)) to explore additional and better ways of providing quality medical care. The Navy Medical Department supports efforts by ASD(HA) to correct problems in the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) by taking advantage of innovative and competitive approaches to health care available in the private sector. We are optimistic that substantial improvements can be made which will result in greater beneficiary satisfaction.

Our efforts to realign limited medical resources demonstrate the commitment of Navy medicine to fulfill its medical readiness mission and provide high quality care to those we treat. We have an outlook which projects that, "Whatever we do, we will do right." Recognizing that we can no longer supply the services demanded by all our beneficiaries, and fulfill our wartime readiness role while delivering a quality health care product, Navy medicine has undertaken the above management actions to establish more sensible and efficient patterns of health care delivery. Reallocation and consolidation of medical resources for quality reasons is being driven by limitations on medical resource growth not by a desire to eliminate beneficiary services.

Staffing for military medical facilities must be accomplished within the Medical Department's share of overall Navy endstrength. Congressional reductions in Navy manpower requests over the years, therefore, have had a direct impact on our ability to treat all authorized beneficiaries.

Sometimes I get asked, "Do you have enough manpower to do the job?" My answer is, "What job? What job do you want us to do?" That has never been specified very well. Is the job active duty only or is it all authorized beneficiaries? "Space available" treatment is not as well accepted today as it was in the past. Our beneficiaries demand treatment as a "right" and articulate it in just those terms. Following the usual access priorities, let me explain that Navy medicine definitely has the required manpower to perform its primary peacetime mission, that is, to meet the health care needs of active duty forces. There is also enough manpower to provide a great deal of care to active duty dependents. However, let me be very clear in stating that resources are NOT available to fully satisfy the demands for services by retired personnel and their dependents. Furthermore, newly mandated programs such as staffing our quality assurance programs, testing and evaluating Navy personnel for HTLV-III virus, and providing all related services of a medical nature to handicapped children in DOD Dependent Schools further decrease our capability for providing care to non-active duty beneficiaries.

Our proposed actions to redistribute scarce resources are based on access priorities in existing law and directives. Specifically, Title 10, Chapter 55, United States Code states that active duty members are priority recipients of health care in military facilities. Non-emergency health benefits to active duty dependents, retired members and their dependents may be provided subject to the availability of space and facilities and the capabilities of the medical staff.

It is important that Congress support our initiatives. To that end, I earnestly solicit your support of Navy's requested fiscal year 1987 endstrength. This request is crucial to our efforts to continue to provide quality health care to both the operating forces and to as many other eligible beneficiaries as our available resources will allow.

QUALITY ASSURANCE

Despite highly publicized cases of medical malpractice, I continue to be firmly convinced that the overall quality of care delivered to beneficiaries in Navy medical facilities is excellent. I know the leadership of the Navy Medical Department is fully committed to providing high quality care. Substandard care is not condoned under any circumstances. Whenever deficiencies are identified, corrective measures are instituted. Participants at the Key Commander's Conference on Navy medicine identified several areas requiring action to improve the quality of medical care delivered. Many centered on improving our quality assurance (QA) program for the operating forces. We have developed the following action program to address the issues raised:

- Emergency Room Staffing - First, let me say that all of our emergency rooms meet the Joint Commission on Accreditation of Hospitals standards for their designated level. We are not satisfied with that and want to raise the level of emergency rooms at some of our hospitals. However, this also takes manpower resources. The lack of adequate full-time dedicated staff for all of our emergency rooms is one of our most pressing quality assurance issues. Development of staffing criteria including guidance on the appropriate use of all existing local resources has been completed. We will convert existing billets or program for billets to establish the appropriate emergency room staffing levels. Some emergency room services may have to be converted to acute care clinics vice true emergency rooms.

- Quality Assurance Training - Our QA programs require increased training for involved personnel. Requirements for additional training at Navy medical treatment facilities have been determined and resources identified. Initial training has begun and will focus on increased physician understanding of QA programs and a reduction of duplicative efforts.

- Training and Monitoring of Independent Duty Corpsmen (IDC's) - IDC's are responsible for both patient care and administrative matters aboard ships and stations that do not have an assigned physician. Positions in the fleet have been identified and filled that will provide support and monitoring capability necessary to ensure optimal clinical performance by IDC's. A Navy working group has reviewed IDC accession, initial and refresher training, and assignments. As a result, the IDC selection process has been revised and updated refresher training courses have been instituted accordingly. Policy guidance has been developed to ensure that when IDC's are assigned to our hospitals and clinics they perform functions that maintain their clinical skills.

- Surface Warfare Medical Institute - Training provided by the institute will ensure that medical officers assigned to the staffs and ships of surface warfare units have the necessary education to appreciate the special needs of deployed units and their personnel. Part of the training will be conducted aboard ship so that the medical officer gains a better understanding of the differences between the practice of medicine aboard ship and at a shoreside clinic. The first Surface Warfare Medicine Institute class will begin in the summer of 1986.

- Indoctrination Training - Because many new medical officers are reporting to their initial duty stations without attending a Navy indoctrination course, the accession process for medical officers will be adjusted to accommodate this requirement. I have also directed the development and implementation of an improved system of performance evaluation for new medical officers during their civilian pre-service training for accession and credentialing purposes.

- Medical Care for Recruits - Policies are being studied to improve the resolution of identifiable and correctable non-disqualifying medical conditions of recruits prior to their reporting to initial operating units.

Other QA initiatives include:

- Licensure of Health Care Providers - In accordance with a DOD directive, an instruction is being developed that requires all health care clinical providers who provide care independently to possess a valid state license by 1988. The instruction also stipulates requirements for reporting infractions and substandard practices to civilian licensing agencies.

- ADP Support - We are establishing data processing support to track adverse credentials actions.

Policy guidance on the evaluation and disposition of potentially suicidal patients and on the timeliness for evaluating patients with suspected malignancies are being developed. In addition, we have actively participated in the selection process for a civilian contractor to review military medical records. Navy medicine supports the external review of military medical care and stands ready to cooperate fully.

I am confident that we have developed policies for a comprehensive, well-thought out QA program to ensure that the quality of Navy medicine is second to none. Implementation of policies for quality assurance programs is manpower intensive and some billets are not filled because of manpower constraints. Your support of Navy's manpower request will help fill the unfilled billets.

NAVY TESTING PROGRAM FOR HUMAN T-LYMPHOTROPIC VIRUS, TYPE III (HTLV-III)

Navy's testing program for antibodies to the HTLV-III virus believed to be the cause of acquired immune deficiency syndrome began for new accessions on 1 October 1985. As of January 1986, approximately 33,000 applicants for accession into the Navy and Marine Corps had been tested for exposure to the virus. Limited testing for active duty members began in January 1986. By June 1986, Navy laboratories will be capable of processing 115,000 tests per month. Testing of all active duty Navy and Marine Corps forces is expected to be completed by December 1986. In addition to testing personnel, all blood processed by Navy blood banks since July 1985 has been tested.

The Navy Medical Department will conduct an epidemiological study to evaluate the results of its testing program. This will form the basis for future Navy policy regarding HTLV-III infection.

SUMMARY

In summary, I would like to restate our primary objectives for fiscal year 1987. They are:

- To ensure timely delivery and operating capability of the deployable medical systems, and
- To reallocate CONUS health care resources in order to better manage the disparity between limited capability and increasing demand.

The goals I have described will require careful planning and a willingness to make changes in our health care delivery system where necessary. It will take the combined understanding and support of the Congress and our civilian and uniformed leadership. I guarantee my personal commitment to the principle of "Whatever we do, we will do right," even in these times of disparity between demand and capability.

That concludes my formal statement. I would be pleased to answer any questions you may have.

Mr. ADDABBO. General Chesney, please proceed.

OPENING STATEMENT OF GENERAL CHESNEY

General CHESNEY. Good afternoon, Mr. Chairman.

My colleagues have used up most of the words that I have in my testimony so with your permission, I will summarize it.

Medical readiness continues to be our number-one priority. We think of medical readiness in terms of prepositioning equipment for the care of casualties in a war, but equally important is the capability in peacetime to maintain the health of active duty and retired personnel and their dependents.

We have made marked improvements in the last five years, and are well on our way to our 1990 goal of being fully combat ready around the world.

Theater assets in Europe and the Pacific have significantly increased. We have in the last two years organized seven teams around the world who are on-call to help combat terrorism and ready for immediate response to any terrorist activities against our people. We have four teams in Europe and three in the Pacific that are on alert and ready to go.

Our CONUS hospitals have also been given instructions in antiterrorism and are working to have the capability to handle any terrorist activities that might occur and cause medical casualties in the United States.

Forty-one medical treatment facilities have shared agreements with the VA and there are 40 other agreements with other facilities.

Quality assurance continues to receive much emphasis from the Air Force Surgeon General's office and we are working diligently to fulfill the requirements of quality medical care around the world.

I thank you for your indulgence, sir.

Mr. ADDABBO. Thank you very much, General.

[The statement of General Chesney follows:]

STATEMENT BY MAJOR GENERAL MURPHY A. CHESNEY

Mr. Chairman and Members of the Subcommittee

I am honored to appear before you to discuss activities of the Air Force Medical Service.

I will briefly highlight the status of various programs and activities underway to ensure that the Air Force meets its mission requirements and provides quality health services.

Medical Readiness

Medical Readiness continues to be our first priority and major progress has been made in meeting our requirements. There are two kinds of medical readiness: one is readiness to care for our wounded on battlefields and the other, also of high priority, is medical readiness activity which sustains our deterrent forces in peacetime so they are successful in preventing a war. That daily peacetime effort centers around medical support which delivers comprehensive health care, focusing on uniformed member performance and family retention in the military services. As Secretary of Defense Casper Weinberger pointed out in remarks during his recent visit to Europe, "The difficulty of retaining quality individuals really depends... it's critically dependent... on the comfort they feel about the well-being of their families. We recruit individuals, but we retain families."

The military medical services play a large role in this retention effort. Our attention to quality family programs, the personnel reliability program execution, timely multi-specialty active duty care "to keep them on the job", and a high quality health care system contribute immeasurably to the readiness of our deterrent forces.

Readiness for wartime continues to receive major attention. Since 1980, the Air Force Medical Service has increased its manpower by approximately 6,000 active duty and 6,000 Reserve Forces positions. We are still working vigorously toward prepositioning of medical facilities and equipment in selected areas overseas to expand our readiness capability. By prepositioning hospitals and equipment, the Air Force will have medical treatment facilities readily available to treat, stabilize and return to duty or evacuate casualities.

Cumulative investment in medical war reserve materiel (WRM) up to 1978 was $17 million but current programming shows a total increase to nearly $822 million by 1990. These dollars will procure 33 500-bed hospitals, 21 250-bed aeromedical staging facilities (ASF), 30 25-bed mobile ASFs, 160 2nd echelon units, 3 250-bed hospitals and 26 50-bed air transportable hospitals. Through FY 86, the following medical materiel will have been procured: 23 500 bed hospitals, 19 250-bed ASFs, 30 25-bed mobile ASFs, (MASFs) 64 2nd echelon units, 3 250-bed hospitals and 21 air transportable hospitals.

By the end of FY 86, we will have purchased 100 percent of the 250-bed hospitals, 25-bed MASFs, and mobile surgeries, 80 percent of the air transportable hospitals, 90 percent of the 250-bed ASFs and 69 percent of the 500-bed contingency hospitals. All of our combat zone hospitals will be procured by the end of FY 86. Of the FY 87 program of $143.916 million, $50.500M is for war reserve materiel (WRM) in support of Air Force readiness/contingency requirements. Included in this amount are 4 500-bed hospitals, 38 hardwall expandable shelters and 1,720 eight foot sections of temper tents (provides sheltering where buildings of opportunity are not available) and 16 second echelon medical units which provide resuscitation and stabilization care to casualities in preparation for evacuation to acute care 500-bed hospitals units. $85.844 million is for modernization and replacement of medical, dental, physiological training, and real property installed equipment worn beyond economical repair or made obsolete by advances in technology. Of this total, $36.711M is identified for radiology equipment, accounting for most of the growth in the FY 87 request for equipment used in peacetime care. Increased radiology requirements reflect the fact that much of our current inventory of diagnostic x-ray equipment—which has an average life expectancy of 10 years—was purchased in 1977 and 1978 to achieve compliance with federal safety standards issued pursuant to the Radiation

Control for Health and Safety Act of 1968. In all clinical specialties, continuing advances in technology have produced equipment which enables significant, sometimes dramatic, improvements in diagnosis and treatment. This equipment is essential to provide a level of quality for our beneficiary population which meets accepted standards of clinical care offered in civilian medical practice. Safety standards and related laws have also significantly affected the requirements for, and cost of, replacement and modernization of equipment. Much replacement equipment incorporates advanced technology and, as a result, is more expensive. The Medical Service has faced peacetime investment funding shortfalls in each year since FY79. The backlog of approved unfunded peacetime requirements will reach $56 million by the end of FY 86, and remain at $50 million at the end of FY 87. $7.572M is for initial outfitting of new, expanded, or altered health facilities. It supports new and expanded services offered as a result of increased space available in new facilities.

Theater assets in Europe and the Pacific have improved significantly through prepositioned facilities and host nation beds. The construction of the readiness facility at Kimhae AB, Korea will make a major addition to the Pacific theater capability.

We continue to seek existing buildings for purchase or lease from our allies and host nations for storage of our equipment in peacetime.

The contingency hospitals at Little Rissington and Nocton Hall in the United Kingdom and Zweibrucken, Germany have been successfully tested as part of the last three REFORGER Exercises. Personnel augmentation units from Wilford Hall USAF Medical Center manned Little Rissington in September 1984; personnel from USAF Regional Medical Center Wiesbaden, Germany manned Zweibrucken in January 1985; and personnel from our medical centers at Keesler AFB, Mississippi, Travis AFB, California, and Andrews AFB, Maryland manned our contingency hospital at Nocton Hall in January/February this year. As part of all of these exercises, the hospitals providing manpower to the contingency hospitals in the theater were backfilled by Air Force Reserve hospital staffs.

As part of enhanced readiness efforts, plans to use CONUS based C-9s to augment the C-9s already in the European theater are proceeding. Military Airlift Command is also sponsoring changes to the present Memorandum of Understanding between the Department of Defense and the Department of Transportation pertaining to the Civil Reserve Air Fleet (CRAF). The proposal would establish a dedicated aeromedical segment in the CRAF, consisting of Boeing 767s for strategic movement and MD-80s, for tactical and patient redistribution functions. Funds will be requested in FY 88 ($26.7M) and FY 89 ($31.2M) POM to purchase required equipment to make them suitable for our use (retrofitted for litter and ambulatory patients).

In the event of the use of chemical warfare (CW), we have placed pyridostigmine in our medical facilities to be used as a pretreatment drug. In addition, we are working extensively with the Army Medical Research and Development Command to develop improved CW antidotes, medical treatment methods, and defensive systems such as collective protection and decontamination. The Aerospace Medical Division, Air Force Systems Command manages the contractor efforts to study concepts of medical operations in a chemical warfare environment and design of the production model Survivable Collective Protection System-Medical (SCPS-M). Transition to procurement from this development activity is expected in 1989. We plan to procure 140 of these units beginning in FY 89. This system was successfully demonstrated during the SALTY DEMO exercise in Germany last year. We determined that by using this on-base protection system, we were able to reduce the total time required for patient treatment under combat-chemical conditions.

We are actively pursuing medical training in formal courses as well as training at the medical treatment facility unit level. Air Force medical personnel have participated in formal readiness training programs such as Battlefield Medicine, Battlefield Nursing and the Combat Casualty Care Course. Our support of the National Disaster Medical System (NDMS) also continues. The Air Force is responsible for approximately 20,000 beds in the 14 NDMS geographic areas. A preliminary exercise of the local systems have been conducted in each area.

Thirty-six of our CONUS hospitals have been designated as casualty receiving hospitals. Air Reserve Forces' personnel will backfill these facilities following deployment of the active forces.

In addition, the Air Force has had for many years air transportable hospitals (ATH) for response to various contingencies. Currently, we have 12 24-bed and 9 50-bed ATH's. Four 24-bed ATH's are in Europe, 3 24-bed ATH's are in the Pacific and 5 24-bed and 9 50-bed ATHs are in the CONUS ready for rapid deployment where needed. Out year funding will convert all ATHs to the 50-bed size.

In time of war, every Air Force medical member will have a role. For example, the Dental Corps will support the overall Air Force medical mission by providing care necessary to reduce loss of life or limb, prevent undue suffering and conserve the military strength by aiding in returning casualties to duty as rapidly as possible. In the theater of operations, the Dental Corps will treat mission threatening dental disease, dental emergencies and maxillofacial surgical tasks as directed by the medical unit commander. Medical readiness training will enable dental officers to serve as surgical assistants and to monitor patients under general anesthesia when necessary. There is an ongoing training program to make the readiness training for dental officers responsive to the needs of the Air Force.

When our people are not doing specific tasks in support of the mission of the base or training in preparation for their wartime role, they are gainfully employed by providing health care to a significant number of military families in their peacetime role.

We continue to work closely with the Department of Defense and our sister Services in meeting our wartime requirements. We are building our medical readiness capability as fast as funding for manpower, equipment, and facilities will allow.

Terrorism

Numerous changes have been made in the capability to provide medical assistance in response to contingencies, natural disasters and terrorist threats. The formation of medical response teams is one development. The basic concept involves transporting a medical crew to the scene of a disaster, stabilizing and then transporting casualties when able. Several scenarios are: load, stabilize and leave; deplane, stabilize on the ground and shuttle airlift aircraft in and out of our mobile facility; augmentation of our emergency response team with a complete air transportable hospital; augment Army or Navy facilities receiving casualities, or support rapid deployment forces. Composition of the teams may be tailored to the situation; however, one team is generally capable of providing emergency surgical care and stabilization for up to 50 casualties for 48 hours.

The U.S. Air Forces in Europe (USAFE) now has 4 operational Flying Ambulance Surgical Teams (FAST), with locations in England, Germany, Spain and Turkey. The Pacific Air Forces (PACAF) has 3 operational Medical Rapid Response Force teams with locations in the Philippines and Japan.

We require that all base level contingency support plans contain a terrorism annex which provides instruction on actions to be taken in the event of terrorist attacks, or mobilization of medical teams.

Air Reserve Forces

The Reserve medical forces are playing an increasingly larger role in our wartime planning. Their wartime roles involve deployment, aeromedical evacuation mission emergency response teams with a complete air transportable hospital; augment Army or Navy facilities receiving casualities, or support rapid deployment forces. Composition of the teams may be tailored to the situation; however, one team is generally capable of providing emergency surgical care and stabilization for up to 50 casualties for 48 hours.

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Air Reserve Forces

The Reserve medical forces are playing an increasingly larger role in our wartime planning. Their wartime roles involve deployment, aeromedical evacuation mission support, CONUS mission support and CONUS medical augmentation.

Upon mobilization over 13,000 Air Reserve Forces personnel would deploy to the theatres of operations to staff our second echelon units and operate both the tactical and strategic aeromedical evacuation systems. Concurrently, another 18,000 reservists from both the standby and "pretrained" (prior service) categories will serve at the CONUS hospitals designated as casualty receiving facilities or at CONUS-based mission support installations. The importance of our reserve component cannot be overstated. The reserves are an integral part of our force structure and an essential ingredient to an improved medical readiness posture. Today, the Air Force Reserve and Air National Guard have approximately 75 percent of the reservists we need. Funded growth is projected to meet the shortfall, and we are exploring specific incentive programs and training proposals to recruit and retain selected critical skills. In addition, we are looking at the pre-trained category to determine the true availability of skills.

The majority of personnel to carry out the aeromedical evacuation mission are provided by the Reserves. The crews of the Air Force Reserve are providing 60 percent of the peacetime domestic and strategic air evacuation personnel. In time of war, the Guard and Reserve will provide 97 percent of the active force aeromedical evacuation capability.

Our Reserve medical personnel are required to complete training in cardiopulmonary resuscitation, basic first aid, medical chemical warfare defense, disaster training and a variety of continuing medical readiness training protocols. They participate in all major exercises to include those sponsored by the JCS (i.e., REFORGER, TEAM SPIRIT) and a wide variety of field and command post exercises to involve the aeromedical evacuation system.

The Reserve Forces have initiated several programs to partially satisfy the requirements for surgeons for wartime. Three 250-bed contingency hospitals have been activated. The Surgical Mobilization Augmentee Reserve Team program will be operational in FY 86, and will seek to activate 5-member surgeon teams located at twelve different civilian medical schools. The Residents in Training program has been designed to attract surgical residents to the Reserves by providing a stipend while in residency training and is currently awaiting legislative action for funding. Other efforts are underway to provide a more flexible Reserve participation schedule for critical specialities.

Manpower

Congressional support of planned manpower and growth will allow the Air Force to meet most of its contingency requirements by 1991. Our military manpower is programmed to grow by five percent between now and 1991, an average of approximately one percent per year. The growth is paced to coincide with delivery of our deployable assemblages. We are able to use the additional manpower effectively in peacetime to provide cost effective services to our beneficiaries.

Through recruiting service efforts and other sources we project we will be at 99 percent of our authorized strengths in all corps by the end of the fiscal year.

We comprise approximately 26 percent of the Department of Defense (DOD) health care budget, have 31 percent of health care active duty personnel and 31 percent of hospital beds, offering a comprehensive range of health care services to over three million beneficiaries worldwide.

Medical Construction

The FY 87 military construction program for medical facilities includes 21 facilities.

The total cost of this program is $189.39 million. These projects are required to replace or upgrade seriously inadequate facilities and to provide diagnostic and therapeutic equipment to permit the provision of quality of care to our beneficiaries. Nine of these projects are WRM medical warehouses, of which three are for bases in the United States (CONUS). The CONUS facilities will provide critically needed storage space for air transportable hospitals and air transportable clinics that deploy to support theater combat operations, and assets to expand peacetime facilities to provide care and to support blood donor centers.

The remaining six WRM projects are for storage of second echelon assets in Europe. These projects are an integral part of the current initiative to obtain an improved Air Force medical wartime capability.

Additionally, $14.2 million is being requested for the addition project at the USAF School of Health Care Science, Sheppard AFB, Texas, to provide space to insure proper training of medical support personnel.

Since enactment of Public Law 97-337, the amendment to Title 10, U.S. Code, Section 1087, we have devoted much effort to developing an accurate and thorough procedure to determine the most cost effective alternatives to providing health care to DOD beneficiaries. Recently, in conjunction with the Army and Navy, a test of this procedure was conducted. Preliminary reports indicate that all three Services can use this procedure to accomplish economic analyses to document the cost effectiveness of health care delivery alternatives.

The length of time involved in construction of facilities is still a significant problem. Within the limited authority given the Services to make decisions, we have improved this process somewhat by the use of site adapted designs such as the Edwards AFB Dental Clinic and several of ur WRM facilities.

Sharing

Currently 41 Air Force medical treatment facilities have sharing agreements with Veterans Administration (VA) facilities. This represents more than 70 percent of all Air Force medical treatment facilities located within 50 miles of a VA medical facility in the Continental United States. The first identified military construction project sharing with the VA is already in being at USAF Regional Hospital Minot in North Dakota. The Air Force has allocated six of its 40 beds to Veterans Administration patients.

An economic analysis of the Nellis Air Force Base hospital and the VA outpatient clinic in Las Vegas, Nevada was completed this past year, concluding that a joint facility was the most cost efficient method of providing acute care to the Air Force and VA beneficiaries in that area. The Air Force and VA are currently conducting an economic analysis to determine the potential of another joint venture at the USAF Regional Hospital, Elmendorf AFB, Alaska. Another project is currently under review in Albuquerque, New Mexico. Subsequent to identification and justification for a construction project at Kirtland AFB, New Mexico, the Albuquerque VA advised the Air Force of the availability of a number of beds in their new facility which was nearing completion, (plus possible speciality support). The use of these inpatient facilities and construction of an outpatient clinic adjacent to the VA facility as alternatives to the medical construction program (MCP) project at Kirtland is being evaluated.

In addition to these sharing agreements with the VA we have also approved the granting of staff privileges under the Joint Health Benefits Delivery Program to civilian physicians at many of our facilities. Wilford Hall USAF Medical Center is the test site for a five-year demonstration project for bone marrow transplants within DOD. All persons requiring alogenic bone marrow transplantation and eligible for CHAMPUS health benefits are referred to Wilford Hall. The estimated saving to DOD is $6.2 million.

We have numerous other cooperative efforts with our sister services and with DOD. Currently, there are 145 Air Force personnel in joint staffing assignments of which 13 are in medical treatment facilities and the rest in other joint staffing assignments.

We have 28 Air Force medical personnel assigned within the Office of the Assistant Secretary of Defense for Health Affairs with approximately 6 more programmed to go within the next few months to work various medical issues.

Quality Assurance

The Air Force Medical Service is continuing its efforts to ensure quality health care is provided to its beneficiaries. We have directed that specific attention and guidelines be applied to the initial recruitment and accession of health care providers so that medical personnel screening and selection are maintained at the highest level. The Health Professions Recruiting Directorate of the USAF Recruiting Service performs appropriate licensure checks with the Federation of State Medical Boards, the American Medical Association and the Drug Enforcement Administration on all physicians entering the Air Force through recruiting channels. The Air Force, along with the other Services, has established procedures to have appropriate automated screening and other verification checks accomplished at least annually for physicians.

In regard to licensure, the Department of Defense and the military services have jointly developed a directive which requires all physicians, dentists, nurses, and clinical psychologists to be licensed within three years. The majority of Air Force physicians, dentists and nurses already have current licenses.

In addition to the above, the Air Force has placed great emphasis on monitoring and documenting the quality of medical care provided to our beneficiaries. We have established clearly defined criteria for monitoring quality assurance indicators at the local medical treatment facility and for identifying and determining a practitioner's skills. Central to these efforts is inpatient occurrence screening, a quality assurance assessment technique that identifies potential problems and unexpected events to ensure timely review and analysis of clinical cases. The Air Force successfully tested this technique and proposed it to the Office of the Assistant Secretary of Defense for Health Affairs, who later mandated its use in all military hospitals.

To handle the voluminous administrative tasks imposed by the quality assurance program, we initially requested approximately 200 additional personnel. We did not get the number requested but, in October 1985, we began acquiring 141 personnel who will be dedicated solely to the quality assurance effort. Approximately 50 percent of the 141 personnel have been assigned already with the remainder to be in place by the end of September of this year. These personnel will be performing tasks involved in documenting, credentialing, quality assurance monitoring and evaluation, and a wide range of other record keeping requirements.

Automated data systems are critical to our continued progress. The Automated Quality of Care Evaluation Support System (AQCESS) will be installed in 82 Air Force hospitals. It has already been installed in 75 Air Force hospitals, and the remainder should be completed by the end of this fiscal year. The system includes provider credentialing and performance profiling, occurrence screening management, QA problem activity tracking, blood utilization review, and incident report analysis. AQCESS will assist in improving both the quality and timeliness of the evaluation of health care.

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Uniformed Services Treatment Facilities

The increasing costs associated with the Uniformed Services Treatment Facilities (USTFs) (Jackson Amendment Hospitals) continues to be of great concern to me. Actual FY 85 expenditures were $34.0 million as compared to $24.5 million in FY 84, a 38 percent increase. This growth can be attributed to greater usage and costs of the facilities which appear to be increasingly popular. Several initiatives by OSD to control cost increases seem to have slowed the rate of expenses for different types of care, however, the rate of usage continues to drive billings higher and higher. Thus far in FY 86 through February we have expenses totalling $14.7 million. When projected for the fiscal year on the basis of a linear analysis and past year variance factor, the FY 86 requirements are $47.6M. For FY 86 we were appropriated $26M, which was $8M below FY 85 actual cost. The revised FY 86 cost projections are inadequate to meet requirements. The OSD Comptroller recognized the projected growth of the USTF and added $5.6M to the Air Force funding level. This increase, plus internal Air Force Surgeon General reprogramming of $8 million and intra-appropriation transfers by the Air Force Comptroller of $8 million will fully fund the USTF revised $47.6M FY 86 projected requirement.

The Air Force Medical Service is working diligently to fulfill its mission. Much of our success, especially in the readiness area, depends on Congressional support of our manpower, equipment, and medical construction program requests. I thank the members of the Subcommittee for your understanding and support of our initiatives. I will be happy to answer any questions you may have.

Mr. ADDABBO. I will be asking Dr. Mayer most of the questions. If any of you gentlemen wish to add something, don't hesitate to ask permission.

ACQUIRED IMMUNE DEFICIENCY SYNDROME (AIDS)

FUNDING

In fiscal year 1986 the Department of Defense was provided $55,100,000 in Operation and Maintenance funds to begin testing recruits for Acquired Immune Deficiency Syndrome (AIDS).

Dr. Mayer, would you tell the committee how you propose to use these funds?

Dr. MAYER. Yes, sir. These funds are being used through contracts with very carefully selected reputable laboratories to conduct the additional screening examinations of new recruits, and also to begin a process of screening all active duty people for evidence of infection with the virus with priority given to those people who are likely to be sent on short notice to areas of the world where there are serious endemic disease problems. So the money will all be spent in that way.

You may notice from the budget that the largest portion of it goes to the Army, but that is because the Army is responsible as the executive agent for the accessions testing at examining stations.

Mr. DICKS. Mr. Chairman——

Mr. ADDABBO. Mr. Dicks.

POLICY

Mr. DICKS. On that point, is it true that if the individual has the antibody that they are not gong to be let into the service?

Dr. MAYER. That is correct.

Mr. DICKS. I understand that is the policy that is going to be at the academies?

Dr. MAYER. All accessions, whether coming in through an academy or through a scholarship program, anyone who has confirmed evidence of the antibody in his bloodstream is not eligible to begin active duty in the armed forces.

Mr. DICKS. I am not a doctor, so I don't fully understand. I understand that someone could have the antibody without having AIDS. Is that inconsistent?

Dr. MAYER. No, that is correct. As a matter of fact, apparently so far the great majority of people who test positive for the antibody in the bloodstream on repeated tests, the majority of such people so far—the disease has only been known for five years, but so far the majority do not show signs of developing the full-blown disease of AIDS.

The disease is recognizable in a number of stages which are categorized and which include in a fairly early stage some impairment of the individual's ability to develop resistance against disease.

That is why, since we immunize all new people coming into the armed forces, if there is any compromise in the immune system, they are in danger from our immunizations and further, if they go to parts of the world where there are serious endemic disease problems, they may be unable to resist those diseases the way another person would.

The information on exact development of the disease from positive antibody tests to full-blown fatal AIDS is as yet incomplete. So rather than risk the erstwhile soldier, sailor, airman or Marine, and jeopardize that person by doing immunizations that we must do, we won't let them come in.

SCREENING TEST

Mr. Dicks. Is there a question about the test itself?

Dr. Mayer. Almost none. There is an initial screening test and this is one of the reasons the testing is so expensive. There is an initial screening test that just costs a few dollars which is not that reliable so if it is positive, we repeat it immediately. If it is still positive, we then subject the blood to a much more elaborate and much more expensive test. Usually, reliability is very high.

Mr. Dicks. I think this is a very important issue. You said that the first test isn't very reliable. Does that mean that people who might have the antibody could slip through the first test and never get the full test?

Dr. Mayer. Good question. Reliability can be both in giving too many false positives or too many false negatives. The problem with the initial screening is not that people slip through it; it is that it reports as positive some people who are not. That is why we go on to a very expensive test to make sure because we don't want to deny anybody access to the Services.

Mr. Dicks. The academies——

Dr. Mayer. Not just the academies, the kid trying to come in as a private. We don't want, on the basis of a test that suggests he might have the antibody, to have him take home that burden, so we are going to make sure that he does in fact have the antibody in his bloodstream, and that is all we can tell him.

Mr. Dicks. Thank you, Mr. Chairman.

USE OF AIDS TESTING FUNDS

Mr. Addabbo. Dr. Mayer, in the interest of time, supply for the record how you propose to use these funds, provide for the record a detailed breakout by service of how these funds were utilized and include sub-breakouts for testing, patient care, et cetera.

[The information follows:]

Army Answer. The following is a detailed break out for fiscal year 1986 of Army utilization of the operation and maintenance funds.

	Million
Operation & Maintenance, Army:	
Screening/Testing	$21.8
Patient Care [1]	20.8
Total	42.6
Operation & Maintenance, Army National Guard:	
Screening/Testing	2.5
Total	2.5
Total Operation & Maintenance	45.1

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[1] Note that $6.9 million of the patient care amount has been sequestered as a result of Gramm, Rudman, Hollings procedures.

Navy Answer. Five million dollars has been appropriated but not as yet authorized for the Navy to conduct HTLV-III testing. All testing and associated medical evaluation and medical care to date have been accomplished through reprogramming from other medical workload resources. Based upon a projection of testing approximately 800,000 personnel in fiscal year 1986 (of the approximately 1,000,000 to be ultimately tested) with a 0.2 percent positive test rate, the following fiscal year 1986 costs are expected to be incurred within the Navy:

	Million
Testing	$5.0
Patient Care ($2.0 million—Operation and Maintenance, Navy; $2.9 million—Military Pay, Navy; $0.4 million—Other Procurement, Navy)	5.3
Epidemiological study	.5
Total cost	10.8

Should the estimate of positive test rate prove in error, these estimates would change proportionately.

Air Force Answer. The Air Force share of the $55.1 million fiscal year 1986 appropriation is $5 million. The $5 million was requested to fund testing of the entire Air Force active duty force, not just recruits. The 100 percent testing of active duty Air Force members will be accomplished by contract beginning in May 1986 and continue until June 1988. The result of this phasing allows the funding requirement to be dispersed over three fiscal years (fiscal years 1986, 1987 and 1988). Current projections indicate the following breakout of fiscal year 1986 expenditures.

	Million
Testing	$1.15
Patient care	2.7
Total	3.85

Mr. Addabbo. Provide for the record how much the Department is requesting by service in fiscal year 1987, provide for the record a detailed breakout similar to the one above for fiscal year 1987.

[The information follows:]

Army Answer. The following is a detailed break out for fiscal year 1987 of the Army's budget request for operation and maintenance funds.

	Million
Operation & Maintenance, Army:	
Screening-Testing	$21.8
Patient Care	20.8
Total	42.6
Operation and Maintenance, Army National Guard:	
Screening/Testing	2.5
Total	2.5
Total Operation & Maintenance	45.1

Navy Answer. The Navy budget for fiscal year 1987 contains the continuation of the $5 million provided by Congress in fiscal year 1986. This will be applied against the total expected cost of approximately $11 million for this program in fiscal year 1987.

Air Force Answer: Air Force current projected fiscal year 1987 requirements for testing and treatment if AIDS is as follows:

	Million
Testing	$2.2
Treatment	2.7

Note.—Treatment costs are based on current average daily patient load of 16 patients diagnosed with AIDS. Any increased patient load will require funding adjustment.

STAFFING FOR AIDS TESTING

Mr. Addabbo. Does the Department have adequate staff and facilities to administer and evaluate tests?

Dr. **Mayer**. Not entirely. This is why we rely to a very considerable extent on civilian contract laboratories which are fully equipped to do this kind of work.

So far I am told by Admiral Seaton that the Navy is conducting its own testing, but even that costs money.

As we embark on testing the entire active duty population, which will take substantial time, we will continue not to be able to do it within our own resources. We must buy help from the outside.

Mr. **Addabbo**. Provide for the record the estimated—if contracted out, the estimated contract costs, and also if you do not have sufficient staff and dollars to administer the test, provide for the record the estimated number and dollars required.

[The information follows:]

Army Answer. The fiscal year 1986 Operation and Maintenance, Army contractual cost to screen accessions as well as Army active duty and reserve personnel is $16.8 million.

Navy Answer. Navy will contract only for Western Blot testing at a cost of aproximately $300,000 and will accomplish all ELISA testing in its own laboratories. As previously indicated, the cost of testing and associated patient care is expected to exceed the appropriated amount by approximately $5.8 million in fiscal year 1986. Additionally, the medical evaluations (approximately 14 days hospitalization) necessary as a result of a positive test require that medical staff be transferred from current patient care duties to meet this need. Based on a projected requirement to evaluate approximately 200–400 per month, 20 physicians, 32 nurses, 12 Medical Service Corps officers (counseling and administrative support), 100 Hospital Corpsmen and 16 clerical personnel are required for full time staffing. Dedication of these personnel to this function will correspondingly decrease both inpatient and outpatient services primarily for non-active duty beneficiaries. It is anticipated that these beneficiaries will receive care though the Civilian Health and Medical Program of the Uniformed Services.

Air Force Answer: Funding requirements for 100 percent AIDS testing of Air Force personnel are projected at $5 million, dispersed over fiscal years 1986, 1987 and 1988. Current funding distribution requirements are as follows:

Fiscal year:	*Million*
1986	$1.2
1987	2.2
1988	2.2

Since the screening effort centers on a one-time occurrence which has been dispersed over several years, additional staffing is not being requested for this effort.

Mr. **Addabbo**. Please answer the rest of the questions on this subject for the record.

[**Clerk's note**.—Questions submitted by Mr. Addabbo and the answers thereto follow:]

TESTING POLICY

Question According to policy set forth in a Secretary of Defense memorandum of October 24, 1985, all new accessions will be tested for exposure to HTLV-III before entering the service. Please describe the procedures to be followed.

Answer. The following persons are tested in the accession program: all persons who are processed through a Military Entrance Processing Station (MEPS) for enlistment, appointment, or entry on active duty for initial training; all persons who receive a physical examination at other than a MEPS as part of the enlistment or appointment process or in conjunction with entry on active duty for initial entry training; candidates for officer service as part of preappointment or precontract physical examinations; and all persons who enter on active duty for initial entry training who were not tested within the 6 months preceding entry on active duty as described above. Those individuals ascertained by an analysis of a blood specimen to be HTLV-III antibody positive defined as repeatedly-reactive enzyme immunoassay confirmed by immunoelectrophoresis are not eligible for service.

QUESTION. What is the cost per ELISA test, per Western Blot test. Does this differ by Services.

ARMY ANSWER. The cost per initial sample is $4.41, and this includes ELISA screening and Western Blot confirmation if required. Western Blot reconfirmation is $52 per sample. There is no difference among Services since the contract covers all Armed Forces accessions.

NAVY ANSWER. For the Navy, the current cost of an ELISA test averages $1.75 with some variability based on the volume of testing done at a given facility. A contract to centrally procure all ELISA testing reagents is being pursued and is expected to result in a final cost of $1.25 per test. Each Western Blot test costs the Navy $30.

AIR FORCE ANSWER. The ELISA test by itself costs $3.00. The estimated contract cost of screening is $5.00 to $6.00 per person which includes confirmation testing and shipping. The Western Blot test costs approximately $20.00 per person. All services are separately pursuing contracts. The Air Force contract has not yet been let.

QUESTION. What is the estimated number of accessions to be tested each month?

OSD ANSWER. As of February 28, 1986, 269,856 applicants for the Armed Forces were tested for the HTLV-III antibody. This averages about 59,000 tested each month. The numbers processed by Service per month are approximately:

Army/Army Reserve (including National Guard)	29,000
Navy/Navy Reserve	13,000
Air Force/Air Force Reserve (including Air National Guard)	10,000
Marine Corps/Marine Corps Reserve	6,000
Coast Guard/Coast Guard Reserve	250

NAVY ANSWER. For the period 1 October 1985 through 6 March 1986 a total of 28,546 Navy and 12,546 Marine Corps accessions have been tested through Navy medical facilities. The monthly number of accessions tested by the Services is expected to gradually decrease as those in delayed entry programs who have not been tested in the Military Entrance Processing System (MEPS) are accessed and tested. When this group is depleted, nearly all accession screening should be accomplished by MEPS with only a small number requiring testing by the Navy. These would include those not tested because of administrative error or who enter through special programs in which MEPS is not utilized. At present an accurate estimate of this number is not available.

QUESTION. What percentage of the total would show positive HTLV-III exposure?

OSD ANSWER. The rate of HTLV-III antibody positive (repeatedly reactive enzyme immunoassay confirmed by immunoelectrophoresis) recruits has been approximately 1.5 per 1,000 individuals tested.

Navy Answer. Navy experience to present shows that 0.18 percent of new accession tests and 0.21 percent of active duty tests have been confirmed positive. It should be noted that, because of the relatively small number of active duty tests completed to date, the percent of positives indicated for this group may not be statistically valid.

Question. What is the reliability of the "ELISA" screen test? What is the rate of false positives?

Answer. For every 1,000 potential accessions tested, approximately 10 are repeatedly reactive by enzyme immunoassay. Of the 10 serum samples that are repeatedly reactive by enzyme immunoassay, approximately 1.5 are confirmed by immunoelectrophoresis (Western blot). Therefore approximately 8.5/1000 accessions would be false positive by ELISA but false positives are eliminated by the confirmation process of immunoelectrophoresis (Western blot).

Question. What percentage of total testing positive would be confirmed positive by the "Western Blot" confirmation test?

Answer. A positive test is defined as a repeatedly reactive ELISA (enzyme immunoassay) serum sample confirmed by Western blot immunoelectrophoresis. Approximately 95–98 percent of the individuals determined to be HTLV-III antibody positive by Western blot immunoelectrophoresis are reconfirmed when a second blood sample is tested.

Question. Describe the counseling provided to a recruit who tests positive.

OSD Answer. Within the Navy and Marine Corps, medical, psychological and spiritual counseling is provided to all active duty and recruits found to be HTLV-III positive. This counseling is provided by designated medical department and chaplain personnel who are well qualified in the pathology and prognosis of HTLV-III infection and have a compassionate understanding of its physical and psychological impact on positive individuals. All counseling is done individually. It is made clear that the presence of antibody to the virus does not mean that the individual has or necessarily will get AIDS. The physical aspects of the infection are covered in detail including the nature of the virus and its possible effects on the immune system, specifics of modes of transmission and precautions to prevent it especially as related to family and other social contacts, signs and symptoms of disease possibly related to infection, probability of contracting AIDS and AIDS Related Complex, pregnancy and the need for continuing medical followup. All efforts are made to impart a factual understanding of the infection while at the same time allaying as much as possible the fears associated with it.

Navy Answer. An applicant who tests positive for the HTLV-III antibody is sent a registered letter that requests him to return to the Military Entrance Processing Station (MEPS) to discuss a medical problem. At the MEPS, the individual is informed by the Chief Medical Officer and the MEPS Commander of the test results and the meaning of a positive result. The applicant is provided a fact sheet on the HTLV-III virus and is advised to see his own personal physician. In addition, the applicant is given a list of local agencies that provide HTLV-III counseling.

QUESTION. Provide for the record a timetable, by Service, of when you expect the initial testing of all active duty personnel will be completed. Reserve personnel?

ARMY ANSWER. The Army timetable for initial testing of all personnel for HTLV-III antibody is as follows:

Component	Begin	Complete
Active	Feb 86	Jul 87
Army National Guard	Aug 86	Feb 88
Army Reserve	Jan 87	Jan 88

NAVY ANSWER. The Navy is developing the medical capability to complete testing of active duty Navy and Marine Corps personnel by 1 January 1987 and reserve personnel by 1 April 1987.

AIR FORCE ANSWER. It is anticipated that all Air Force active duty and reserve personnel will have initial testing completed over the next two year period.

Question. Describe for the record the "retention/separation" policy for personnel who have tested positive. Include any differences among the Services.

Answer. Individuals who are antibody positive but manifest no evidence of progressive clinical illness or immunological deficiency are retained on active duty. Individuals who are infected with HTLV-III and demonstrate progressive clinical illness are referred for medical evaluation for a determination of fitness for continued service in accordance with Title 10 United States Code Section 1201, et seq.

Question. For the record, describe the deployability policy of each Service, to include any restrictions on assignments.

Answer. For the Department of the Army, soldiers who are HTLV-III antibody positive but manifest no evidence of progressive clinical illness or immunological deficiency cannot be separated solely on the basis of having been confirmed positive for the HTLV-III antibody. These soldiers will be considered temporarily nondeployable.

For the Department of the Navy, military personnel who are antibody positive but manifest no evidence of progressive clinical illness or immunological deficiency are retained in service, unless some other reason for separation exists. Military personnel who are antibody positive may be assigned without geographic restriction. However, the Chief of Naval Operations and Commandant of the Marine Corps may establish limitations on assignment of such members to operational units or specific duties when deemed necessary to protect the health and safety of antibody positive members and of other military personnel.

For the Department of the Air Force, individuals who are HTLV-III antibody positive but manifest no evidence of progressive clinical illness or immunlogic deficiency are retained. Although individuals who test positive for HTLV-III antibody are considered worldwide assignable and deployable, there may be some question about assigning such an individual to areas with a high risk of endemic disease or severely limited medical support. Therefore, the Office of the Surgen, Air Force Military Personnel Center, reviews all proposed permanent change of station assignments for these individuals. There is no restriction on deployment or short term (less than 180 days) temporary duty.

Question. As part of a Epidemiological Assessment, does each Service follow-up and test family or close friends of any Service member who has tested positive?

Army Answer. Testing for family members of HTLV-III service members will be provided upon request but is not mandatory for these civilian personnel. Testing of close, non-family contacts will be done on Federal health care beneficiaries but not others. Notification of contacts is precluded by statute in two States, is mandated in several other States, and not addressed by legislation in the remainder.

Navy Answer. As normal contact between family members and casual social contact between friends has not been shown to cause the transmission of the HTLV-III virus, such individuals would not routinely be followed up or tested. Those persons with whom a positive individual has had sexual or other high risk contact would be followed up and offered testing if an eligible beneficiary or, if ineligible, advised of their status and the need for followup by their own physician.

Air Force Answer. The Air Force offers testing to family members at risk. Family members and other individuals at risk due to sexual or parental contact are also offered testing. Other individuals who request testing may be tested at the discretion of the physician.

Question. Is there any requirement to notify state or local authorities?

Answer. HTLV-III antibody positivity ascertained during the physical qualification examination for entry into military service or ascertained for military members is reported to the local, county, and/or state health official only when there is a valid requirement to do so and a formal request by the state health official. These requests must be submitted to and approved by the Assistant Secretary of Defense (Health Affairs).

Question. Are you satisfied that information contained in these tests, especially "false positives" are not used against the individual, both in his career and social standing?

Answer. Prevention and control of HTLV-III infection is addressed by the Department of Defense as a serious medical and public health issue. Application of sophisticated laboratory technology with a rigorous quality control program provides the clinician with state of the art diagnosis and confirmation of HTLV-III antibody positivity. Each individual is provided the optimum in diagnosis, counseling, and education regarding the status of his or her infection with HTLV-III. HTLV-III infection is first and foremost a medical condition.

PATIENT CARE

Question. By Service, describe what facilities are available and how they will be utilized (i.e., number of wards, beds, medical staff, and support staff.)

Provide the estimated cost (manpower and facilites) required to support these facilities.

Is there a requirement for additional personnel or facilities? If so, provide the estimated cost and the time frame required.

Army Answer. AIDS patients are currently being admitted to the eight Army Medical Centers however, at the pesent time, Walter Reed Army Medical Center is the only Medical Center with a dedicated ward for AIDS patients. By 1 July 1986, a total of six Medical Centers will have dedicated wards. Due to limited space, two Medical centers will have to continue to integrate AIDS patients into existing wards. Planned beds and staffing follow:

Number of beds	221
Number of medical staff	57
Number of support staff	407

The estimated cost (manpower and facilities) required to support these facilities are as follows:

	Million
Medical Center Staffing	$6.2
Supplemental Staff Medical Department Activities	4.0
Supplies	1.6
Total	11.8

Since $11.8 million has been alloted for facilities and manpower, there is no requirement for additional resources at this time. Change in program or policies may change future resource requirements.

Navy Answer. For the Navy and Marine Corps, twenty-seven military medical treatment facilities will provide laboratory services to conduct ELISA testing. Four hospitals (Naval Hospitals at Bethesda, MD, Portsmouth, VA, San Diego, CA, and Oakland, CA) have been designated for the medical evaluation of positive individuals. Each of these four hospitals will have a dedicated unit to allow completion of approximately 100 evaluations per month. Each will have a 20–40 bed inpatient ward and a 75–100 bed ambulatory care ward for this purpose. The evaluation requires from 10 to 14 days to complete. Staff for this unit at each facility consists of 5 Medical Corps officers, 8 Nurse Corps officers, 3 Medical Service Corps officers (counseling and administrative support), 25 Hospital Corpsmen and 4 clerical support personnel. All staff are taken from current resources.

The estimated patient care costs from all appropriations associated with completion of initial testing of Navy and Marine Corps personnel are approximately $6.6 million.

Through reprogramming from other medical workload resources there are currently adequate personnel and facilities within the Navy to provide the patient care required for the evaluation of HTLV-III positive individuals. It must be noted that both the facilities and personnel have been taken from assets previously available to provide care to other beneficiaries. While sufficient resources are available to provide for other active duty care, the transfer of the necessary personnel to complete the HTLV-III testing program and medical evaluations will cause a significant reduction in the availability of both inpatient and outpatient care to dependent and retired beneficiares. This care is expected to be transferred to the Civilian Health and Medical Program of the Uniformed Services.

Air Force Answer. All Air Force AIDS patients are presently treated at Wilford Hall USAF Medical Center, Lackland AFB, Texas, where one ward (25 beds) and a dedicated staff of 14 (7 nurses and 7 technicans) has been allocated at the expense of other patient care programs. The average daily bed occupancy has been 16, and the average length of stay for a patient is 51.3 days. The cost is running at approximately $24,000 per patient, over $2.7 million annually.

As the Air Force begins its program to test all active duty members for HTLV-III over the next two years, additional costs will likely incur. All personnel who test positive for HTLV-III will be thoroughly evaluated at Wilford Hall. This program is projected to have a manpower cost of at least one additional physician and three additional laboratory technicians. This comprehensive testing program is likely to discover additional individuals afflicted with AIDS who will also be hospitalized at Wilford Hall. The number of cases discovered will determine whether the dedicated ward discussed above will be adequate or expansion will be necessary.

AIDS RESEARCH

Question. The Army was provided $40,000,000 in fiscal year 1986 for research, General Becker, what has been accomplished to date?

Army Answer. Following the congressional appropriation of $40,000,000 for Acquired Immune Deficiency Syndrome (AIDS) research, the Army has developed a research plan and is preparing to implement it upon authorization of this congressional appropriation. An existing laboratory of the Walter Reed Army Institute of Research is being prepared as the base for in-house research activities. This laboratory is located at the Forest Glen section of the Walter Reed Army Medical Center. The Army has established communications with the Navy, Air Force, and the National Institutes of Health to include the National Cancer Institute at both the executive and working group levels. Currently, the Army has a military liaison member on the committee for chemotherapy. Additionally, the Army has had discussions with the National Academy of Sciences, Institute of Medicine and with the AIDS coordinator for the Communicable Disease Center. The United States Army Medical Research and Development Command is establishing an extramural contract research program for AIDS research and has received 31 proposals thus far which are under review.

Question. For the record, provide a funding profile of the $40,000,000.

Army Answer.

	Millions
Congressional Appropriation	40.000
General Reduction/Inflation	−.484
Total Appropriation	39.516
Decrements:	
Gramm-Rudman-Hollins	−1.936

	Millions
Small Business Innovative Research	−.400
Balance	37.180
Research Topic:	
Natural History of Disease in Military Populations	9.000
Improved Methods of Disease Detection	3.400
Chemoprophylaxis	12.280
Vaccine Development	3.500
Virus Transmission-Risks for Military Personnel	7.100
Immune Response	1.900
Total	37.180

Question. How much is being requested, by Service, for research in 1987?

Answer. Since Army is lead agency for infectious disease research, all AIDS research funds for DoD are included in the Army budget. The AIDS research funds were added to the Appropriations Bill for FY86 at a point in time after the Services had forwarded their budget submissions for review. No opportunity has been available to add AIDS research funding to the FY87 budget. The Army is currently planning to request 18 million dollars in FY88 and 17.5 million dollars in FY89. FY86 AIDS research funds have been appropriated, but not authorized. I have issued AIDS research guidance which includes a requirement for coordination with NIH. Research proposal review will begin on 17 March, but research will not be funded until authority is received to obligate these funds.

[CLERK'S NOTE.—End of questions submitted by Mr. Addabbo.]

Mr. ADDABBO. At 4:00 we expect to go into executive session to discuss medical readiness.

The gentleman from Pennsylvania yields to the gentleman from Louisiana.

Mr. LIVINGSTON. Thank you, Mr. Chairman.

If I could get into another matter. I have questions for Mr. Miller that he would like to submit for the record. I also have some material and a series of questions regarding the proposed cutback at Brook Army Medical Center in Texas for Mr. Loeffler.

[CLERK'S NOTE.—Questions submitted by Mr. Miller and the answers thereto follow:]

DRUG AND ALCOHOL ABUSE AMONG MILITARY PERSONNEL

Question. Dr. Mayer, the preliminary results from the 1985 worldwide survey of drug and alcohol abuse among military personnel, shows a decrease in the use of non-medical drugs among military personnel. Data that you have provided to us shows that the prevelance of use of drugs by military personnel has dropped from 27 percent in 1980 to 9 percent in 1985. The 1985 survey results also indicate that 12 percent of the military population are heavy drinkers down from the 20 percent reported in 1980.

Using the preliminary results that were provided by the Department of Defense, it shows that while drug use is down by 18 percent from 1980 to 1985, alcohol use is down by only 8 percent from 1980 to 1985. It would appear that drug use is going down faster than alcohol use. Why?

Answer. Drug abuse is down by 18 percentage points from 1980 to 1985. Indeed, any drug use in the past 30 days is now one third of the 1980 level. There appears to be some misinterpretation of the preliminary results regarding the decline in alcohol use from 1980 to 1985. The data do not indicate that alcohol use is down. The 1980 survey found that 83 percent of the population used alcohol during the past 30 days and the 1985 survey states that 87 percent used alcohol. There has been a decline, however, in lost productivity due to alcohol abuse from 34 percent in 1982 to 27 percent in 1985.

The reduction in drug use is the result of powerful sanctions against any use of an illicit substance. Alcohol use is legal and the needed changes to curtail alcohol abuse are now well established in the Services, but progress toward elimination of alcohol abuse will come more slowly because the sanctions against alcohol abuse are not as powerful.

Question. Is the overall decline in drug use among the military due to a decline in drug use in the lower enlisted population? Is this also true for alcohol use?

Answer. In the 1982 survey approximately 36 percent of the personnel in pay grades E1–E5 reported any drug use in the past 12 months. In the 1985 survey approximately 18 percent of the personnel in pay grades E1–E6 reported any drug use in the past 12 months. Thus, there was approximately a 50 percent decline in drug use among the lower enlisted population. Alcohol use in the lower enlisted personnel E1–E6 has remained approximately the same.

Question. The 1982 worldwide survey reported that heavy alcohol use had declined since 1980, but there was an increase in the reported prevelance of "moderate" alcohol use. Was there an increase in the prevelance of "moderate" alcohol use in the 1985 survey?

Answer. Drinking levels based on quantity and frequency data during the past 30 days for the 1982 and 1985 surveys indicate that all changes were negligible. There was a 1 percent increase in 1985 in the abstainer category.

Question. For the record, please provide the discharge rate for drug and alcohol dependency reasons. Please provide this by Service since 1980. Please provide this data in the separate categories of drugs and alcohol dependency.

Answer. The following data were provided by the Defense Manpower Data Center. The numbers represent those individuals discharged due to drug and alcohol related incidents.

	1980		1981		1982		1983		1984		1985	
	Drug	Alcohol	Drug	Alcohol	Drug	Alcohol	Drug	Alcohol	Drug	Alcohol	Drug	Alcohol
Army	[1]2864		[1]3035		[1]3592		4,506	3,121	3,412	2,213	5,102	1,705
Navy	557	179	466	185	2,289	392	5,714	756	6,720	793	5,390	411
Marine Corps	72	115	82	124	499	220	2,503	240	2,690	231	1,532	221
Air Force	1,531	177	1,732	190	2,802	269	2,965	339	4,440	345	4,007	256

[1] In 1980, 1981, and 1982 the Army did not report drug and alcohol by separate category.

NAVY ANSWER. The information follows:

NAVY DRUG AND ALCOHOL RELATED DISCHARGES

	Alcohol	Drug
Fiscal year:		
1980	179	575
1981	189	477
1982	386	2,045
1983	740	5,442
1984	822	6,636
1985	422	5,268

SURGEON AVAILABILITY

QUESTION. Dr. Mayer, you have stated that the Department of Defense has only 32 percent of the active duty surgeons that would be needed in war time. Medical training programs continue to train specialists that would not be needed to support a military mission and therefore the Department is training more doctors than are needed in some specialities while being understaffed in other specialities. Is this correct?

Mr. **MAYER.** It is correct that in some specialites the Services are training physicians in numbers excess to the wartime requirement while the surgical skills remain markedly under the active component wartime requirement. This is a major concern of mine and for that reason I am establishing a Federal Advisory Committee composed of the leaders in graduate medical education to provide me with recommendations on how I might best structure the military graduate education system.

QUESTION. Last year, you told us that the total DoD mobilization requirement for surgeons would be 8,803. Is this still correct?

Dr. **MAYER.** Our best estimate of the total DoD mobilization requirement at this time is still 8,803 surgeons. As I stated in my testimony, however, currently available estimates of wartime health personnel requirements are in the process of being refined through standardized use of the medical planning module (MPM) by the Services to determine workload-based personnel requirements. At my direction, the Services are using the MPM to develop wartime personnel requirements for the FY 1988–1992 Program Objective Memoranda (POM). As part of the summer 1986 review of the Services' FY 1988–1992 submissions by the Office of the Secretary of Defense, we will evaluate the refined estimates of wartime requirements for surgeons and other categories of health personnel.

QUESTION. How many would be Reserve surgeons and how many would be active duty surgeons?

Dr. **MAYER.** The total current estimate of 8,803 surgeons required for wartime is broken out by reserve and active component requirements as follows:

Reserve components	5,640
Active component	3,163
Total requirements	8,803

Question. What is the Department doing to recruit and train more general surgery and orthopedic surgeons? How is the Department filling shortfalls?

Dr. **Mayer.** The Department has intensified efforts to improve manning levels for surgeons and other critical wartime skills.

Specific guidance has been provided to the Services to establish specialty-specific reserve components recruiting programs that will reduce wartime shortfalls of surgeons and other critical wartime skills by 20 percent each year, and to investigate and pursue any other alternatives that could contribute to reducing these shortfalls. The Services have also been directed to investigate the feasibility of, and implement programs for, preassigning surgeons and other critical wartime physician specialists and nurses from the Individual Ready Reserve and Standby Reserve to active component and early deploying reserve component units. As part of this program, preassigned personnel will be encouraged to train annually with the units in which they would serve. The Department is implementing two new recruiting incentive programs, established by the Defense Authorization Act of 1986, to encourage trained specialists and health professionals who are being trained in critical wartime skills to commit themselves to service in the Selected Reserve. It is too early to see results from the implementation of these new programs but they appear quite promising. Other incentive initiatives are under development, all aimed at critical wartime skills. In addition, the Office of the Secretary of Defense has established a Federal Advisory Committee to make recommendations as to how the military graduate medical education programs should be structured to best support medical readiness requirements.

Question. The fiscal year 1986 DoD Appropriation Bill report as passed by the House, included a requirement for the Department to implement the recommendations made by the DoD Inspector General in its August 16, 1985 report on medical manpower requirement. Has the Department implemented the recommendations?

Dr. **Mayer.** Yes. We share the view of the Congress that the DoD Inspector General's recommendations are valid. As required in the House Appropriations Committee Report, a report to Congress giving details on the implementation plan and its status was submitted to the Committee on March 12, 1986. To summarize that report, the Services are demonstrating good faith and a conscientious effort to implement the recommendations of the Inspector General. This action will, in the future, be viewed as a favorable turning point in the way our reserve component medical assets are managed.

NURSES SHORTAGE

Question. Are qualifying practical nurses who lack college degrees allowed to serve in the military? If not, do you think they should be allowed to do so?

Dr. **Mayer.** All three of the Services accept non-degree registered nurses into the Reserve Components. Army policy is to accept into the active force only registered nurses with a baccalaureate degree. The reason for this policy is that the Army has been successful in meeting its recruiting goals with degreed nurses. The basic policy of the Air Force is to recruit degreed registered nurses into the active force. The Air Force makes an exception in the case of nurse anesthetists because they have difficulty in filling those positions. The Navy currently recruits both degreed and non-degreed registered nurses into the active force. However, they give preference to the degreed registered nurse. I believe that the Services' policies are reasonable.

[Clerk's note.—End of questions submitted by Mr. Miller.]

BROOKE ARMY MEDICAL CENTER AND MEDICAL READINESS

[Clerk's note.—Questions submitted by Mr. Livingston for Mr. Loeffler and the answers thereto follow:]

Introduction. Brooke Army Medical Center (BAMC) has the second largest Army medical officer training program. Currently, its graduate medical education program trains 236 physicians in 23 medical specialties. Graduate education is now the Army's principal supply of a well trained medical force which can mobilize to fill the needs of deploying and forward deployed medical facilities.

BAMC supplies 33% of Army's anesthesiologists, nephrologists, ophthalmologists, emergency medicine, pulmonary disease and infectious disease specialists; 37% of gastroenterologists, 12.5% of general surgeons and 17% of orthopedic surgeons.

BAMC conducts several specialized nurse training programs whose graduates will be greatly needed in wartime. One of only two medical centers w/intensive care nursing course; one of only three med centers w/operating room nursing course. In 1986, BAMC will operate Army's only dialysis nurse course.

BAMC is a center for training of 16 enlisted specialties. Two of the most important to Army readiness are operating room and x-ray. The Institute of Surgical Research, or Burn Unit, operates two wards in connection w/BAMC and has been a source of tremendous research in trauma and treatment.

BAMC's mobilization plan calls for rapidly expanding bed capacity to more than 2,000 beds for support of wartime casualties returning from theater of operations. In every conflict since Spanish American War, this capacity has been invaluable. In World War II, BAMC operated 3,071 inpatient and 5,000 convalescent beds. During 1945 alone, overseas admissions reached 16,715 of which more than 7,000 were battle casualties.

BAMC has also supported casualties from Iran rescue attempt, U.S. Marine Beirut barracks bombing, and Grenada conflict.

BAMC will provide fully trained medical officers to bring deployed overseas medical units up to operational strength during national emergency or mobilization.

Before I ask my questions, I would like to insert some material into the record.

[The material follows:]

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[illegible]
[illegible]

DEPARTMENT OF THE ARMY
BROOKE ARMY MEDICAL CENTER
FORT SAM HOUSTON, TEXAS 78234-6200

REPLY TO
ATTENTION OF

HSHE-ZX 30 January 1986

MEMORANDUM FOR THE SURGEON GENERAL

SUBJECT: BAMC's Role in Support of AMEDD Wartime Readiness

1. The recent staff report from the House Armed Services Committee examining "Wartime Medical Readiness" criticizes the Armed Services for devoting too much attention to its peacetime mission of supporting the health care needs of the beneficiary population to the detriment of its wartime mission of supporting the combat medical needs of our fighting forces. In support of this contention, the committee has cited the military's plan to allocate $435 million to build a new Brooke Army Medical Center (BAMC) when at the same time there exists a serious shortfall of in-theater beds for Europe needed to support casualty estimates predicted in a conventional war scenario. Three statements are offered by House Armed Services Committee investigators as conclusive evidence to support this argument:

a. Brooke's specific wartime mission has not been clearly defined.

b. Brooke's primary mission in peacetime care is questionable given that San Antonio's military population is principally retirees.

c. A new Brooke is apparently unnecessary in San Antonio because nearby Wilford Hall USAF Medical Center (WHMC) is currently underutilized.

2. In the same context, the Secretary of Defense speaking to the Department of Defense (DOD) Health Council, remarked that he concurs with a report by a blue ribbon panel on sizing of DOD treatment facilities and has directed that its recommendations be implemented immediately. He further stated that "...we will not waste public resources on the construction of expensive hospitals, clinics, and medical centers when quality services are available elsewhere in the community and when there is no 'readiness' reason for doing so."

3. From the above report and statements, some have apparently concluded that BAMC does not contribute to the readiness posture of the Army Medical Department (AMEDD). The purpose of this memorandum is to respond to these reports and to show how they are incomplete and, therefore, misleading.

4. Before detailing BAMC's contributions to the readiness of the AMEDD, some clarification needs to be made on the peacetime versus wartime role of the AMEDD. As stated in the report by the House Armed Services Committee, the primary mission of the AMEDD is to maintain the health of its active duty soldiers while at the same time maintaining the capability of responding to a large number of casualties in the event of war. In peacetime the AMEDD is also

charged with providing medical care on a space-available basis to dependents of the active force, retirees, and dependents of retirees. These two missions referred to as the "readiness" mission and the "beneficiary" mission are both competitive and complementary. They are competitive because the numbers and types of physicians needed to support our beneficiary population in peacetime is different from that needed to support our active duty population in wartime. They are complementary because the availability of "beneficiary" patients is essential to provide the needed case material for maintenance of skills essential to support our "readiness" mission. If our critically needed wartime medical specialists so vital to our "readiness" mission were used only to support active duty personnel in peacetime, their services would be seriously underutilized. Instead, these physicians' services must be kept operating effectively in order to maintain their skills, as well as the skills of the ancillary staff who support them. Thus, these two missions are not mutually exclusive functions.

5. An examination of BAMC's contributions to the readiness of the AMEDD must be addressed from two perspectives: those readiness missions accomplished during peacetime and those performed only at the onset of mobilization. In peacetime, BAMC's readiness mission centers on two major responsibilities:

a. Providing tertiary medical care to active duty personnel within the geographic area encompassing Texas, Oklahoma, Arkansas, and Louisiana.

b. Conducting numerous medical education/training programs in a large number of medical disciplines. The latter of these responsibilities is where BAMC makes its largest readiness contribution and is what really sets a medical center apart from other hospitals. BAMC conducts medical education/training programs in the following areas:

(1) BAMC operates the second largest of the Army medical officer training programs providing internship, residency, and fellowship programs to 236 physicians in 23 medical specialties and one dental specialty. In this era of no draft, BAMC's Graduate Medical Education (GME) program provides one of the principal means of attracting and maintaining a ready, well trained medical force capable of responding at mobilization to the immediate medical manpower needs of our deploying and forward deployed medical facilities. BAMC's GME training program currently provides 25 percent of the radiologists, thoracic surgeons, and nuclear medicine specialists available to the Army Medical Department; 33 percent of the anesthesiologists, nephrologists, ophthalmologists, emergency medicine, pulmonary disease, and infectious disease specialists; 37 percent of the gastroenterologists; 12.5 percent of the general surgeons; 17 percent of the orthopedic surgeons; and 30 percent of the cardiologists. According to a study performed by a committee of the Institute of Medicine in 1981, the importance of military GME to the readiness of the AMEDD can also be illustrated in other areas as well:

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(a) GME ensures the capability of the AMEDD to deliver high quality patient care in their medical centers, as well as help sustain the quality of care throughout the medical system. This capabflity contributes to the AMEDD's primary military mission to be ready to deal with a sudden influx of wartime casualties.

(b) GME in military hospitals helps increase the number of physicians on active duty because these physicians do not begin to fulfill their service obligation until they have completed their graduate medical education. For example, scholarship recipients with a four-year service obligation who enter a four-year military GME program will serve a total of eight years military service before completing that service obligation. Except for their first year of GME training, these physicians are available for worldwide assignment in the event of a military emergency.

(c) GME provides important opportunities to evaluate the talents and qualifications of potential career medical officers.

(d) GME helps retain in uniform well qualified and experienced physicians who serve as faculty members for GME training programs.

(e) GME allows the Army, in peacetime, to maintain a larger military tertiary care capacity than could be expected without GME. This capacity would be immediately available in an emergency to support our combat forces.

(2) BAMC also conducts graduate residency training in health care administration, pharmacy, dietetics, and clinical pastoral education.

(3) BAMC conducts several specialized nurse training programs for the AMEDD which produce highly skilled nurses who will be in great demand at wartime given the projected casualty estimates. Major programs conducted are as follows:

(a) BAMC is one of only two medical centers conducting an intensive care nursing course which graduated 24 nurses in 1985.

(b) BAMC is one of three medical centers conducting an operating room nursing course which graduated 24 nurses in 1985.

(c) BAMC trained an additional 24 nurses in a two-week critical care nursing short course in 1985.

(d) In 1986, BAMC will begin operation of the Army's only dialysis nurse course, producing up to eight graduates each year.

(4) BAMC provides a 12-month phase II clinical experience in 10 specialty rotations for approximately 12 Army National Guard Physician

Assistant (PA) students per year. The PA program is conducted in cooperation with Sheppard Air Force Base which provides the didactic portion of the training. On completion of the program, these physician extenders are assigned to fill positions in the medical platoon of maneuver battalions and are responsible for providing for the health care needs of these units in both peace and wartime.

(5) BAMC has traditionally been a center for the training of enlisted specialties and its extensive enlisted training involvement is critical to the Army's ability to meet mobilization requirements. BAMC currently conducts enlisted training in 16 diverse specialties including a tri-service inhalation therapy course, the only one of its kind providing military specialists in this field and the largest program in the United States. It is also one of six centers which conducts a primary training program for patient care specialists, the Army's equivalent of a licensed vocational nurse. Seventy-seven students graduated from this program last year and these medics will serve as the paraprofessional support so critical to the staffing needs of our field hospitals. BAMC also serves as the primary training site for two other critical medical specialties, orthopedic specialist and cytotechnology specialists, graduating 16 and 12 students, respectively, per year. In support of the phase II or the practical phase of training, BAMC serves as the site for 11 other enlisted training courses that are conducted at the Army's Academy of Health Sciences. Two of the most important, in terms of their contribution to the Army's readiness needs, are the operating room specialists (68 per year) and X-ray specialists (43 per year).

(6) BAMC serves as one of the primary AMEDD training sites for reserve component units and individual members of the reserve performing annual training. In Fiscal Year 1986, 34 separate reserve component units containing 3,223 personnel are scheduled to receive two weeks readiness training at Brooke. Three locally based reserve component TOE hospitals receive medical proficiency training on their weekend drills at BAMC. BAMC also serves as host to 111 members of the Individual Ready Reserve and 59 Individual Mobilization Augmentees (IMAs) during their annual two-week mobilization training.

(7) The Medical Field Service School (MFSS), originally located at Carlisle Barracks, Pennsylvania, was moved to San Antonio in 1946, in part, because of the availability of a large Army medical center to meet MFSS's clinical training requirements. Forty years later, Brooke still retains responsibility for providing on-site clinical experience to augment the primary classroom training conducted at the Academy of Health Sciences. Additional support to the Academy is also provided in the form of instructors with medically unique qualifications to support the program of instruction of the numerous courses offered. For example, the Combat Casualty Care course, which has trained over 4,000 physicians, relies on BAMC for faculty to teach the Advanced Trauma Life Support course. Today over 35,000 soldiers receive

training at the Academy each year and virtually every medical soldier in the AMEDD passes through its doors at least once in their career.

(8) The Institute of Surgical Research, more popularly known as the Burn Unit, has been associated with BAMC since 1946. This research unit, which operates and staffs two wards and receives significant administrative and logistical support from the BAMC staff, has been a source of tremendous research on trauma and its treatment so important to the Army Medical Department in both its wartime and peacetime mission.

6. BAMC's wartime contribution to the readiness of the AMEDD is clearly set forth in its mobilization plan. The adequacy of this planning is evaluated regularly during the conduct of DOD and Health Services Command (HSC) sponsored mobilization exercises. As the second largest of HSC's subordinate health care facilities, BAMC has significant responsibilities upon mobilization as outlined in the following:

a. Upon notice of mobilization, BAMC possesses the capability of rapidly expanding its bed capacity from its current operating beds of 694 to a total of 2,222 beds. This phased expansion is accomplished primarily to provide support for casualties returning from the theater of operations. This capability has been invaluable to the nation's defense preparations in every conflict since the Spanish American War. For example, in World War I, BAMC operated 1,250 beds and during World War II, it operated 3,071 inpatient and an additional 5,000 convalescent beds. During 1945 alone, the overseas admissions reached 16,715 of which 7,197 were battle casualties. The peak of this patient load came during one week in June of that year with 9,389 patients on the hospital census. BAMC has continued to support the medical needs of this nation's wartime casualties in every subsequent conflict to include the 1983 U.S. Marine Beirut barracks bombing, the aborted hostage rescue attempt in Iran, and the Grenada conflict. These lessons from history have taught us the importance of remaining prepared. Given the extreme bed shortfall projected in the initial days of a NATO conventional war, it seems foolish to characterize a new Brooke as an asset whose wartime readiness has not been clearly defined.

b. BAMC serves as the Federal Medical Coordinator for 14 civilian hospitals in the San Antonio metropolitan area who have committed a minimum of 535 and a maximum of 905 beds in support of the National Disaster Medical System (NDMS). The NDMS is an outgrowth of the 1981 Emergency Mobilization Preparedness Board established by President Reagan and is based on the concepts of the Civilian-Military Contingency Hospital System (CMCHS) created in 1980 in which civilian hospitals voluntarily commit a portion of their beds to support military casualties at wartime. In its role as a coordinating center, BAMC is responsible for linking hospital beds with transportation, communication, and other resources, and to establish patient administration procedures. The NDMS, which will eventually provide over 100,000 available beds nationwide, is a vital element in support of military medical readiness planning.

c. BAMC mobilization plans provide for this hospital to operate a major blood donor center upon mobilization to meet blood product needs in support of both the hospital's expanded bed requirement and our nation's deployed forces.

d. BAMC will provide medical equipment maintenance support and clinical/hospital support to inductees at Military Entrance Processing Stations in Houston and San Antonio, Texas.

e. BAMC provides fully trained AMEDD officer personnel to bring deployed overseas medical units in Korea and Europe, Rapid Deployment Force Army units, and deploying Forces Command units up to operational strength during periods of national emergency or mobilization. In peacetime these units normally do not include more than a necessary minimum of physicians, nurses, and highly trained technicians due to the nonavailability of an adequate patient care setting vital to the maintenance of their clinical skills. Two hundred and sixty-seven of Brooke's personnel are affiliated with these deployable medical units under this contingency staffing concept known as the Professional Officer Filler System (PROFIS).

f. Upon mobilization, BAMC provides hospitalization, medical and dental examinations, immunizations, optometry services, outpatient services, and technical guidance and assistance on medical matters to 53 mobilizing and deploying reserve component units. BAMC also provides full medical support to the expanded training base at the Academy of Health Sciences and the rapidly growing installation mobilization population that reaches a peak figure of 63,829 within six months of full mobilization. The provision of medical services also extends to terminal transport units operating in the port cities of Houston, Galveston, and Corpus Christi, Texas.

g. With the implementation of full mobilization, retirees recalled to active duty play a major role in the defense plans of this nation, freeing members of the active component to fill shortages within our deploying forces. By providing for the complete health care needs of these retirees in peacetime, BAMC ensures that these individuals are physically capable of assuming this responsibility.

h. Recent events in Latin America have heightened the interest of U.S. military contingency planners in this increasingly volatile region. BAMC, by virtue of its geographic location, is ideally situated to provide hospitalization in support of any U.S. Southern Command Forces committed to this theater of operation.

7. The statement that nearby WHMC is currently underutilized, making BAMC unnecessary, is a superficial assessment and not based on a complete analysis of the facts. A more thorough examination of this issue reveals several important factors that make it unrealistic to expect one medical center to manage the current workload now being performed by two.

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a. Wilford Hall, a 1,000-bed facility at full capacity, is staffed to operate only 750 beds; i.e., it is underutilized only to the extent that the entire physical plant is not used because there is insufficient staff assigned to safely care for more than 750 patients at any one time. Even if WHMC were provided the significant number of additional staff required to support the full 1,000 beds, the facility could not assimilate an additional 19,436 admissions and 1,139,930 clinic visits per year currently managed at BAMC.

b. San Antonio is home for the second largest concentration of military retirees in the nation. Barring major changes in beneficiary eligibility, it is unreasonable to expect that one medical center alone can support the increasing health care needs of this growing population.

c. Upon mobilization, Air Force contingency plans call for WHMC to expand to 1,000 beds. This expansion figure is barely adequate to meet Air Force requirements much less support the mobilization mission currently accomplished by BAMC.

d. BAMC serves as a HSC regional headquarters which provides specialized secondary and tertiary treatment facilities in both inpatient and outpatient care and consultation services to Army community hospitals at Fort Hood, TX, Fort Sill, OK, and Fort Polk, LA, who serve a combined beneficiary population of over 300,000 of whom nearly 80,000 are active duty military. It is inconceivable that WHMC could accommodate second and third tier medical support requirements of this population or provide appropriate consultative services to these distant facilities.

e. BAMC provides regional laboratory services to Army, Navy, and Air Force medical treatment facilities located throughout the continental United States. Although each medical center operates an area laboratory, BAMC's area laboratory conducts a large number of specialized procedures that are beyond the capability of these other laboratories. In fact, BAMC performs many specialized procedures of this type in support of Wilford Hall.

f. As previously discussed, BAMC has major training missions in both graduate medical education and enlisted training in cooperation with and in support of the Academy of Health Sciences. The loss of this training capability would have a major adverse impact on the ability of the Army Medical Department to support its wartime medical personnel requirements. To disestablish and later reestablish a GME training program can take from three to five years. Transferring these teaching programs to WHMC is not feasible as most WHMC teaching programs are already operating at near maximum capacity.

8. There is no question that a policy to redirect public resources when there is no readiness return on investment is absolutely correct. However, application of that policy to deny BAMC new construction funding demonstrates an incomplete understanding of medical readiness. In response, this paper has

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attempted to more fully explain the major role BAMC plays in support of the AMEDD's wartime readiness and thereby show that construction funds appropriated to build a new Brooke do, in fact, represent a major return on our nations's readiness investment.

Girard Seitter III
GIRARD SEITTER, III
Brigadier General, MC
Commanding

Question. Brooke Army Medical Center (BAMC) now trains hundreds of physicians, nurses, and enlisted medical personnel in wartime specialties. Where will they be trained if BAMC's existing facilities are replaced by a much smaller facility?

Dr. **Mayer.** This question addresses one of the primary issues which must be fully explored before I provide a final recommendation on the replacement of BAMC. The analysis of this issue will include training requirements for all those personnel that would have to be met by other activities; the training capacity at other sites for the specific type of training required; and the cost of relocating those training programs.

Question. The tri-service facility now under study at your direction lists sharply reduced bed capacity options for BAMC—as low as 25 beds under the surgical center option. Where will returning wartime casualties which normally would be admitted to BAMC be treated if bed capacity at BAMC is sharply reduced?

Dr. **Mayer.** The point of your question is well taken because it is just one example of the complex issues which must be considered when deciding how we might best spend finite dollars when replacing military hospitals. The Department of Defense, at the request of both houses of Congress, has begun the process of developing a DoD-wide CONUS medical mobilization plan. The plan is expected to be completed by the end of this year. Among other issues, the plan will address the strategy for redistributing the casualties of a major overseas conflict after they arrive in the United States. The question of where casualties will go for treatment that otherwise would have been directed to BAMC will be resolved in the broader context of the DoD CONUS medical mobilization plan should the decision be made to replace BAMC with something of lesser capacity.

Question. Where will current patient load of 19,000 admissions and 1,139,930 clinic visits per year now managed by BAMC be shifted if BAMC capacity is reduced as the tri-service plan directs?

Dr. **Mayer.** The tri-service plan is under development. The directive calling for the development of a plan requests an analysis based on three alternatives, all of which differ from the most recent design for replacing BAMC. The staffing plan would not be appreciably different from that which is used for the facility as it presently operates. When considered with the present staffing, the three alternative plans would capture the range of possibilities for replacing BAMC. Since a decision on the final recommendation for replacing BAMC has not been made, it was only prudent to consider a range of alternatives during the period of analysis. That issue aside, I can only tell you now that if replacing Brooke with a new facility providing the same sevices as the present facility is demonstrated to be the most cost effective alternative after addressing all of the relevant training and readiness issues, then that is what I will recommend. The cost effectiveness analysis will, of course, consider the cost of providing care to those persons who now receive their care at Brooke.

[**Clerk's note.**—End of questions submitted by Mr. Livingston for Mr. Loeffler.]

PROPOSAL FROM NEW ORLEANS PROVIDERS

Mr. LIVINGSTON. Mr. Secretary and gentlemen, I certainly appreciate your concern for the CHAMPUS beneficiaries and I understand you have a long-range plan that might substantially change the way those beneficiaries are taken care of, but the fact is, Mr. Secretary, your office has received an unsolicited proposal by a private health care provider in the greater New Orleans area that could provide a coordinated and comprehensive approach to the delivery of health care to beneficiaries.

I am told that this is a demonstration project that if feasible could be implemented within 60 days and serve as a model. It proposes to save the Department $4 million a year and almost $13 million over three years and would save beneficiaries in turn another $13 million over three years by requiring no out-of-pocket expenses for the beneficiary.

As presented, it would cost the Department no money to implement or to administer and yet the project has been shelved or has not been met with a warm reception.

Last year, in response to my questions on military health care, Dr. Mayer, you testified that you had been approached by the Services to provide assistance in providing care for service members and their dependents in New Orleans.

You stated we would certainly be willing to work with the Services to develop a coordinated approach to delivery of health benefits in that area.

In response to my question, would the Department set up demonstration projects in a few areas to study the effectiveness of preferred providers, you answered, yes, and I am obliged to tell you that with respect to this particular project, the entire Louisiana delegation and I in particular strongly support the concept put forth by this proposal.

We have been asking the Department for years for improvements in the provision of CHAMPUS in our area. So far we haven't been too terribly successful. There are still a lot of clients down there.

Now, there is a proposal, it has the strong support not only of the Louisiana delegation but also from service commands and military associations in the greater New Orleans area.

In fact, I am going to insert some letters in the record at this point. I alone have received over 480 individuals letters of support for this proposal and so I would like to know why the impasse.

[The information follows:]

DEPARTMENT OF THE NAVY
COMMANDER NAVAL RESERVE FORCE
NEW ORLEANS, LOUISIANA 70146

IN REPLY REFER TO:
6000
Code 00B
9 Dec 1985

Mr. James D. Shelton
Program Manager
Medical Health Access Program
4444 General Meyer
New Orleans, Louisiana 70114

Dear Mr. Shelton:

Your proposal to provide medical care for military dependents in the New Orleans and surrounding area has been reviewed. I strongly support the concept that you offer to resolve medical deficiencies for our military dependents. We, of the military community in New Orleans, have long suffered due to lack of medical facilities, being locally available to provide health care for our families.

The health care concept you have proposed would apparently provide a full spectrum of medical facilities and meet our total health care requirements. As I understand it, this concept would also relieve military families from the financial burden of out-of-pocket expenses currently associated with the CHAMPUS program. Relief from this financial burden would be most welcomed by all members of the military.

The need for such a concept of health care for our military families is clearly evident. If the concept, as you propose, can be accomplished without additional expeditures to the government, it would seem to resolve a very important problem facing the military in New Orleans. I endorse your concept and wish you every success in bringing it to fruition as soon as possible.

Sincerely,

T. F. Rinard

T. F. RINARD
Rear Admiral, U. S. Naval Reserve

UNITED STATES MARINE CORPS
4TH MARINE DIVISION (REIN), FMF, USMCR
4400 DAUPHINE STREET
NEW ORLEANS, LOUISIANA 70146-5400

IN REPLY REFER TO

James D. Shelton
Director
Medical Health Access Program
4444 General Meyer Avenue
New Orleans, LA 70114

Dear Mr. Shelton,

Thank you for the opportunity to comment on your proposed Military Health Access Program. My Chief of Staff, Colonel R. H. Schwartz, attended the presentation and has shared your data with me. The overall concept presented appears to be sound and the potential for increasing access to health care services to our military personnel and their families, while reducing total costs to the U.S. government is very appealing. The fact that our military families had to contribute a significant amount of out of pocket expenses during FY 1984 for basic health care services further substantiates the need for an alternative health care system for the New Orleans area.

Your interest and concern in developing a model system designed to solve the health care access needs of the uniformed services here in New Orleans is sincerely appreciated.

DB Barker
D. B. BARKER

STATE OF LOUISIANA
MILITARY DEPARTMENT
OFFICE OF THE ADJUTANT GENERAL
JACKSON BARRACKS
NEW ORLEANS 70146-0330

EDWIN W. EDWARDS
GOVERNOR

A.M. STROUD, JR.
MAJOR GENERAL
THE ADJUTANT GENERAL

December 9, 1985

Mr. James D. Shelton
Project Director
Military Health Access Program
C/O Jo Ellen Smith Medical Center
4444 General Mayer Avenue
New Orleans, Louisiana 70114

Dear Mr. Shelton:

Your proposal for implementing the Military Health Access Program in the Greater New Orleans area appears to provide a realistic solution to the problem of furnishing this area's large military population with readily accessible, affordable, full-service health care. The need for such a service is beyond question.

I totally agree with the objectives set forth in your proposal as to what is needed and I am equally encouraged as to the benefits that could be obtained from such a program. As Adjutant General of the Louisiana National Guard, my concern for the health and welfare of all military members, both full time and part time, is paramount. I fully support any program that will enhance the total health and welfare of these military members. Your proposal for implementing the Military Health Access Program does indeed promote the well being of area military personnel and provides apparent substantial savings to the U.S. Government.

Please let me know if I can be of assistance in the further development or implementation of this program. If implemented, you may be assured that it will receive my total support.

Sincerely,

A. M. Stroud, Jr.

NCOA
SERVICE CENTER
3152 General Meyer Avenue/New Orleans, Louisiana 70114/(504) 367-1111

DIRECTORY #:
FILE DRAWER:
[illegible]
SENT TO
DATE REC'D JAN 9 1986

December 18, 1985

The Honorable Robert Livingston
2437 Rayburn Building
Washington, D.C. 20515

Dear Congressman Livingston:

I recently had occasion to view the National Medical Enterprise proposal entitled "Military Health Access Program". I find it to be an excellent program that will fill the void left by the closing of the F. Edward Hebert Naval Regional Medical Center and the U. S. Public Health Hospital. Actually, the program will provide better service than we had when both federal facilities were open. Further, the program offers impressive savings to both the beneficiary and government.

On behalf of the membership of the local Non Commissioned Officer Association chapter I strongly endorse this project. Please do everything possible to see that the Military Health Access Program is a reality.

Sincerely,

T. J. Seymour

T. J. Seymour
Chapter Chairman

jc

NCOA
SERVICE CENTER
3152 General Meyer Avenue/New Orleans, Louisiana 70114/(504) 367-1111

DIRECTORY #
FILE DRAWER
CROSS REF
SENT TO
DATE REC JAN 9 1986

December 18, 1985

The Honorable Robert Livingston
2437 Rayburn Building
Washington, D.C. 20515

Dear Congressman Livingston:

I am writing to encourage your support of the National Medical Enterprise proposal titled "The Military Health Access Program". When implemented, the program will again provide much needed full service health care to the New Orleans area military community.

On behalf of the membership of the Non-Commissioned Officers Association, and my family, I would urge that you do everything possible to see this program become a reality.

Thank you.

Sincerely,

Mervin Alward

Mervin Alward
Chief Counselor

jc

IRECTORY # ______
ILE DRAWE ______
SENT TO JAN 9 1986
DATE REC'D: ______

December 31, 1985

The Honorable Robert Livingston
2437 Rayburn Building
Washington, D.C. 20515

Dear Congressman Livingston:

I recently had the opportunity to review the National Medical Enterprise proposal titled "Military Health Access Program". Words cannot express my delight that the New Orleans area military community now has the opportunity for much needed full service health care.

On behalf of my family and the membership of the Fleet Reserve Association, Branch 162, I strongly endorse this project. I would encourage that you do everything possible to again provide full service health care for our military community.

Thank you.

Sincerely yours in Loyalty,
Protection
and Service

Vince McCauley

Vincent P. McCauley, Jr.
President NOLA Branch 162
Fleet Reserve Association
3520 Hero Drive
Gretna, La. 70053

JCS
12/30/85 MHAP
cc ~~[illegible]~~
Phyllis L.

MILITARY OFFICERS WIVES CLUB
Naval Support Activity
New Orleans, Louisiana 70146

RECEIVED
JAN 2 1986
FAMILY HEALTH NETWORK

Kathleen M. Kelley
President, MOWC
Military Officer's Wives Club
605 Guadalcanal
New Orleans, LA 70114

Mr. James D. Shelton
Project Manager: Military
Health Access Program
JoEllen Smith Medical Center
4444 General Meyer Avenue
New Orleans, LA 70114

Dear Mr. Shelton,

The presentation on the Military Health Access Program has been given to the Board of the Military Officer's Wives Club (MOWC). These women represent families from the following commands:

Coast Guard
Gulf Outport (Army)
Enlisted Personel Management Center (Navy)
Commander Naval Reserve Force
Commander Naval Air Reserve Force
Commander Naval Surface Reserve Force
Fourth Marine Air Wing
Fourth Marine Division
Air Force Reserve (Belle Chasse)

All of the board members were highly enthusiastic about this program as it portends better health care for military members and their dependents than is presently available in the New Orleans area. These board members promised to publicize the program and its benefits to the families of their respective military commands and many have committed to corresponding with their Congressman.

Very Truly Yours,

Kathleen Kelley

RECEIVED
DEC 30 1985

Kathleen Kelley
President MOWC

JDS
12/29/85
MHAP
cc John P.
Phyllis

Coast Guard Officers' Wives' Club

December 19, 1985

Mr. James D. Shelton
JoEllen Smith Medical Center
4444 Gen. Meyer Avenue
New Orleans, LA 70114

Dear Mr. Shelton,

We are writing to let you know that we appreciate your efforts to establish the Military Health Access Program in New Orleans. We feel that the program is an excellent one that can provide most of the New Orleans area military community with full service quality health care.

Both the active duty and the retired military are very interested in this proposal. We feel that the project will provide better health care service and at a substantial savings to the government over the present system.

Again, thank you for your support of our military community.

Sincerely,

Diane Skewes

Diane Skewes
Vice President
CGOWC

[illegible]
DEC [illegible] 1985
ADMINISTRATION

Mr. Livingston. You do have authority right now to set up just about overnight, this demonstration project. As I understand your long-term goals for the entire nation in terms of CHAMPUS, frankly, this demonstration program would provide you with vital and critical data with which you could base your overall project.

Dr. Mayer. Mr. Livingston, thank you. I have two minor corrections to submit with respect to your statements.

The first is that regardless of what you may have heard, our reception of that proposal was very warm indeed, because it very closely approximates the kinds of things we would like to do on a larger scale. And we have engaged in discussions with the corporations in question.

The other correction I would submit is that we do not have the ability to implement that overnight, because this is one part of the DoD that looks with extreme disfavor upon any sole-source contract.

I will not do business if I can possibly avoid it, in a competitive marketplace by selecting even a very fine proposal—this is a good proposal, no question about it. It proposes to do exactly the kinds of things we want to do.

Our problem is that in order to go through the process necessary to implement this would take almost as long in the estimate of our fiscal people and contracting people, as it would to start a much larger project. So we told them about the larger project and they did express some interest in possibly being a competitor for it, because no health care corporation in and of itself has to be so big that it could take over a third of the country. However, it has to be big enough and expert enough to serve as an umbrella contractor with regional subcontracts if that is the best way to go.

So they should not give up hope. They are a very fine organization. They correctly recognize many of the problems in the system. They came up with a very imaginative and innovative way to do it and we expect to continue in a dialogue with them.

SIMILAR ARRANGEMENT AT FT. DRUM

Mr. Livingston. Doctor, I am told that frankly—let me preface my question by saying I appreciate your comments about competition, and I think that this proposal could certainly be let out on the basis of competition. I am told that the proponents would have no quarrel with that.

But in fact talking about whether or not you can do it overnight, am I wrong in understanding that within the last two or three weeks, there has been a similar preferred provider-type arrangement in Watertown, New York, at Fort Drum? Is there an operation there?

Dr. Mayer. At Fort Drum where the Army is instituting a new light infantry division, we debated long and hard over whether or not the Army should build a new hospital there.

It was concluded, due to a great variety of factors, including the number of and array of medical specialty services available in the Fort Drum area, and because of the disposition of the families in various locations around Watertown, that we would attempt to establish a kind of preferred provider organization including hospitals which are similar. That is true—well, it is not that similar, but it is along the same lines.

It is an absolutely new situation that we have never had to deal with before. Here is a whole new infantry division in a whole part of the country that has not seen anything but summer training of the National Guard and Army Reserve troops.

In order to try to stay within the realistic budget constraints that we have, the fact that we just couldn't possibly propose building a new hospital especially when there are a multitude of beds in the community, and especially because we don't have the money. The thing at Fort Drum is being worked on, it is my impression that it is not finalized at all.

Mr. **Livingston**. Mr. Secretary, I appreciate your position, but obviously there are similarities between the programs and if this proposal would save both the Department money and render adequate services to the beneficiaries and save them money as well, wouldn't it be worth the attempt to determine maybe on a trial basis, for a year or so, whether or not it was a good idea?

It may well give you tremendous insight into the overall national program.

I understand in just going forward with your national program, you are actually contracting out to private evaluators as to whether or not your national concept might work. That is going to cost you a great deal of money. The New Oreleans demonstration case, it doesn't cost anything.

Dr. **Mayer**. Actually, sir, we are not contracting out the evaluation of whether the concept will be feasible in three large segments of the country.

We are going to publish soon something called a request for information as opposed to a request for proposal which will cost us nothing except to print and mail the request.

As far as doing a test of this, every indication that we have so far from the major health care providers in America's private sector including the nonprofits as well as the profit corporations, I do not believe that we need to engage in a pilot or test.

One of the things that has greatly slowed down progress in many parts of defense has been the pilot projects and test projects. The proposal from New Orleans, which is not a new medical support problem for us, as you know, the Navy did build a hospital there which they rent out because they decided that it was not necessary to use it——

Mr. **Livingston**. I am glad you brought that up, Mr. Secretary, and if I could just inject, I was around when the Navy sought to padlock the Hebert hospital after we paid 22 million bucks for that facility.

Dr. **Mayer**. Right.

Mr. **Livingston**. The CNO at the time was embarrassed by the thing because frankly we were not using it adequately so they were going to padlock it and put it away and it was only because of a good idea propounded by the very same people, the very same people who proposed this idea who said, "Look, we have a good idea; we are going to utilize that hospital and pay the government money," then I got the Navy to finally change their mind and go ahead and use it, and to this very day, the government, the U.S.

taxpayer, are reaping some million and a half dollars a year in rentals from that particular hospital.

Now, Mr. Secretary, we have an idea here. It may not be the cure-all, but it is similar to the same concept you want to implement nationally, but which you will not implement for at least two years. The New Orleans demonstration project could be in business and providing better services at lower costs to both beneficiaries and government within 60 days.

Give it a try, Mr. Secretary. Give it a try.

IMPLEMENTATION OF PROPOSAL

Dr. **Mayer**. They can do it within 60 days, Mr. Livingston, but we can't do it within 60 days. In fact, it will take many, many months before we can go through the hoops of sole-source noncompetitive contract.

Plus, we have at least four other proposals to do small regional projects of exactly the same sort. I am not willing to do that because even though they believe and I think they are probably right that some real savings may be generated, I cannot manage 50 separate contracts around the country. I haven't got 50 proposals, and I am exaggerating, but there are multiple other proposals to do exactly the same thing.

Mr. **Livingston**. You are doing it at Fort Drum, however?

Dr. **Mayer**. That is not a test project for the entire concept, no, sir. Fort Drum is a very simple attempt to use the entire medical community at Fort Drum to serve our soldiers there. It is not a pilot project. It is not an IMPRINT demonstration project.

It is a simple attempt to use the resources we have to buy medical care in a community where we don't have a hospital, where we never even had troops. So it is not really comparable. I know it sounds comparable, but it really isn't.

Mr. **Livingston**. You have a CHAMPUS system in the nation now and obviously the Department has made the determination that it is inadequate, but you are going to go ahead and continue the CHAMPUS system for the whole nation.

It seems to me it would be prudent to try a couple of other ideas and if they work, broaden them to a national scale.

Dr. **Mayer**. That is why I hope this organization may be a successful bidder for a third of the nation in providing that kind of competition.

Mr. **Livingston**. Thank you, Mr. Secretary.

Mr. Chairman, I appreciate your indulgence and I would like to submit additional questions for the record.

Mr. **Addabbo**. Without objection.

[**Clerk's note**.—Questions submitted by Mr. Livingston and the answers thereto follow:]

PROJECT IMPRINT

Question. In your written testimony you state that "I hope to have in place by October 1987 . . . " This replacement (project IMPRINT) for our current system (CHAMPUS). Doctor, how will guarantee quality of services under this new comprehensive plan, project IMPRINT?

Answer. Under our CHAMPUS Reform Initiative (Project IMPRINT), we seek to establish three regional contracts, covering the entire United States, under which competitively-selected contractors would assume the financial risk for any care provided to CHAMPUS-eligible beneficiaries in the civilian sector. These contractors would be responsible for establishing high quality, efficient provider networks. These contracts will include specific provisions relating to quality of care, including requirements for licensing, accreditation and certification of health care providers, internal quality assurance programs and procedures. We will also implement an independent external peer review program to assure that quality of care is fully maintained. Quality of care standards and procedures will be more extensive than those now applicable to civilian providers under the current CHAMPUS program.

Question. How much will this plan increase the out-of-pocket expenses of military beneficiaries?

Answer. One of the prime objectives of the CHAMPUS Reform Initiative is to reduce out-of-pocket expenditures for beneficiaries. We anticipate significant reductions in beneficiary deductible and copayment requirements. There will be no increases in these requirements.

Question. How will your plan answer complaints from beneficiaries who require services?

Answer. The contracts will specify grievance procedures for the handling of beneficiary complaints. Specific procedures will also be provided for appeals and hearings to resolve disagreements, similar to the procedures currently in place for CHAMPUS. Beneficiaries will have the opportunity to appeal contractor decisions with which they disagree to OCHAMPUS. OCHAMPUS, not the contractor, will make the final decision in such cases.

Question. Who will be included in your plan? Who will be excluded?

Answer. All CHAMPUS-eligible beneficiaries will continue to be eligible for CHAMPUS. The CHAMPUS program is not being abolished or replaced. Its basic method of reimbursing for health care services is being changed from the current fee-for-service, self-insurance approach to a new approach of fixed-sum prepayment, which will create incentives for the establishment of attractive, cost-effective provider networks our beneficiaries will be able to select.

Question. What about retired military and their dependants under your plan?

Answer. Retired members and their dependents will continue to be eligible for health care in military treatment facilities and under CHAMPUS.

Question. What will your plan cost?

Answer. We cannot give an exact answer to this question until completion of the acquisition process. We anticipate that with adoption of the fixed-sum purchasing method and its at-risk incentives for cost-effective care, we will accomplish both better services and reduced government costs. In recent years, CHAMPUS costs have risen more rapidly than private sector health care costs. This is due in no small part to the fact that, unlike many private sector health care programs and other public sector programs, CHAM-

PUS has thus far not adjusted to significant changes that have taken place in the health care marketplace in recent years.

Question. Who is going to be accountable to the military men and women who have a commitment from their government for health care for themselves and their families?

Answer. The Department will continue to honor its commitment to its military men and women. The commitment that the government has made to military health care beneficiaries is set forth in the law passed by Congress, Title 10, United States Code, Chapter 55. The contractor will be accountable to the Department of Defense for total compliance with all requirements of the law, the applicable regulations, and all provisions of the contract. The Department of Defense will be accountable to the President, the Congress, military beneficiaries and the taxpayers for compliance with the law and effective administration of the program.

Question. In reference to your written testimony, as to when project IMPRINT will be in place, doesn't this actually mean you "hope" to have only the first contract signed by October 1987—a year and a half from now?

Answer. Our timetable is to have all three contracts in operation by October 1987.

Question. Once you sign a contract, how long will it take to implement such a comprehensive and entirely new system? (A year or longer?)

Answer. Our timetable is for award of the three contracts in the spring of 1987, with full operation by October 1987.

Question. Aren't we really saying that we are at the very least three years or more away from even seeing project IMPRINT begin?

Answer. Although ambitious, we believe the present timetable for award of the contracts in the spring of 1987, with full implementation in the fall of 1987, can be met.

Question. Let me quote what you said during last year's hearing about establishing preferred provider type arrangements nationwide like we have discussed today:

"It is a little misleading to say that there are formal studies going on. It would be more accurate to say there are discussions going on, both with groups of physicians and with people who represent some of the large medical centers. . . . we are in a number of discussions all in a very preliminary phase. . ."

If we are talking about an entirely new system to replace CHAMPUS wouldn't it be better to set up several demonstration models immediately—projects that would blend right in with project IMPRINT when and if it comes?

Answer. For several reasons, it would not be advantageous to defer action on the larger reform effort pending the establishment and operation of several small pilot projects. First, we very much doubt that the competitive procurement process would allow for implementation of a small program much in advance of our timetable for the large acquisition. Second, if a pilot project were necessary, it would have to operate for a significant length of time in order to provide useful information. It could unnecessarily delay the implementation of the reform initiative for several years and postpone bringing our beneficiaries and improved health care system with better access, better quality, and better dollar value. Third, the reform initiative will not create an entirely new system. It brings together components of existing systems that have been successfully tested and operated in the private sector and other public programs.

Question. Wouldn't these models provide the critical data on quality control, patient demand, and costs that you need to implement something as large as project IMPRINT?

Answer. Substantial data exist on many of these points. If it were necessary to conduct a demonstration specific to this initiative, it would require a large-scale effort across the country in order to capture the diverse nature of the population and the relationships between the various types of military treatment facilities and the civilian marketplace.

We are sufficiently confident about the successful outcome of this reform initiative not to delay it. Further, the New Orleans project would not provide any additional information that is pertinent to the most important elements of the initiative, such as the establishment of effective interaction between the military and civilian systems.

Moreover, many sources of data exist that are more directly related to the issues presented in the CHAMPUS Reform Initiative than data that would likely be developed in any small project. Such sources of data are from existing public and private sector health care programs, the experience of the CHAMPUS program, and the comprehensive proposal that will be submitted from the offerors in response to the request for proposals.

Question. The New Orleans proposal and your long range plans have the same goals, do they not?

Answer. The CHAMPUS Reform Initiative and the New Orleans proposal have significant dissimilarities. Among these are, first, that the reform initiative seeks to establish at-risk contracts as the mechanism to create financial incentives for the contractors to organize cost-efficient provider networks. The health care is prepaid, and the financial risk for care is assumed by the contractor. The New Orleans proposal would operate on a fee-for-service basis, with the financial risk remaining with the Department.

Second, the prepaid feature of the CHAMPUS Reform Initiative would allow the Department to fix program costs and determine program savings in advance. The New Orleans proposal provides no method to manage program costs or determine program savings in advance. The estimated cost savings contained in the proposal are merely estimates based on assumptions regarding certain utilization levels. The proposal does not back up those predictions with a fixed-price guarantee, as we seek in the reform initiative.

Third, the CHAMPUS Reform Initiative is predicated on marketplace competition to bring forward the best buy for the government, quality, cost attractiveness, and all other factors considered. The New Orleans proposal seeks the award of a noncompetitive contract.

Fourth, the CHAMPUS Reform Initiative will preserve beneficiary freedom of choice; beneficiaries will continue to be free to receive civilian care from their provider of choice, and CHAMPUS will continue to pay for the services. The New Orleans proposal would restrict beneficiary freedom of choice.

Fifth, the CHAMPUS Reform Initiative will adhere to the basic statutory structure of the CHAMPUS program in seeking to meet the health care needs of our beneficiaries in military medical facilities, if available, or, if not, through the CHAMPUS program. The New Orleans proposal is based on the model of the former Public Health Service hospitals, now deemed to be Uniformed Services Treatment Facilities, under which the Department has experienced very substantial cost overruns.

Question. Is the Watertown Military Health Project a sole source contract?

Answer. There is no contract in support of the Watertown Military Health Project. There are six hospitals in the area surrounding Fort Drum. The prices charged for hospital services for each institution are determined by the New York State Rate Setting Commission of the Department of Health. The State Rate Setting Commission agreed, in January 1986, to recognize in their regulations that active duty members assigned to Fort Drum and their active duty family members be charged, as a maximum, the Blue Cross-Blue Shield rates for institutional care. Blue Cross-Blue Shield of Rhode Island, the CHAMPUS fiscal intermediary resposible for CHAMPUS claims in the State of New York, is a State recognized health care plan manager. Blue Cross-Blue Shield of Rhode Island will, therefore, be negotiating with the institutional health care provider in the area for lower institutional rates, if possible.

With regard to outpatient care and individual provider inpatient care, Blue Cross-Blue Shield of Rhode Island may, as a CHAMPUS fiscal intermediary, negotiate with authorized (recognized) individual health care providers, a fixed-fee schedule for specified procedures, and the acceptance of CHAMPUS assignment, as long as those individual fixed-fees are less than CHAMPUS would regularly pay, i.e., the 80th percentile of the prevailing rates for those procedures in that state.

There is, therefore, no sole source contract. Rather, there are a series of potential negotiations for agreements on prices for services with all recognized institutional and individual health care providers. These negotiations can ensure that the beneficiary retains freedom of choice of providers and obtains quality health care services at the lowest possible cost to the government and the beneficiary.

Question. Do you plan to compete this contract? Provide details for the record on the planned contract specifications and costs for this project. Also cite legislative authority used for implementing this project.

Answer. As mentioned in the response to the previous question, there is no contract or plans for one. As part of their regular CHAMPUS duties, the representatives of Blue Cross-Blue Shield of Rhode Island seek negotiated agreements on prices for services with all CHAMPUS authorized institutional and individual providers. There will be a special effort on the part of the representatives of Blue Cross-Blue Shield of Rhode Island to reach agreements in the Watertown, New York area during the spring of 1986 before the first major troop concentrations arrive at Fort Drum this summer. The legislation establishing the CHAMPUS program is the legislative authority for these routine fiscal intermediary actions.

Question. Who within the Department is going to manage this contract/project?

Answer. The operation of the military treatment facilities at Fort Drum is under the command of the Health Services Command, United States Army. The management of the CHAMPUS program supporting the Watertown, New York area is under the Office of the Civilian Health and Medical Program of the Uniformed Services in Denver. These are the organizations within the Department charged with managing the two segments of the military health services system.

Question. When will your RFI on Project IMPRINT be issued?

Answer. Our timetable is for the Request for Information to be issued this spring.

Question. Are you receiving any outside consultation assistance to develop specifications for the upcoming RFI?

Answer. ICF, Incorporated, 1850 K Street, N.W., Washington, D.C. is providing consulting services relating to the RFI pursuant to contract number MDA 906-85-R-0009.

Question. Are you receiving any outside consultation assistance to implement Project IMPRINT? Provide contract details and cost figures on any outside assistance you are contracting for regarding the RFI, the RFP, or Project IMPRINT in general.

Answer. ICF, Incorporated is providing consulting services pursuant to the contract identified in the above question. Activities under this consulting services contract relating to the CHAMPUS Reform Initiative include evaluations of policy options for design of an at-risk reimbursement structure and benefit/delivery system enhancements, an evaluation of data information needs associated with pursuing a competitive procurement, and the development of recommended specifications for the acquisition. The estimated cost to DoD in connection with these consulting services is $477,179.

Question. Were contracts for these consulting contracts competed? If not, why?

Answer. ICF, Incorporated was awarded the contract for consulting services under a competitive procurement process in accord with the Federal Acquisition Regulation.

Question. Who is administering USTF contracts and the Army's PRIMUS clinic program in Northern Virginia?

Answer. USTF contracts are administered by the Office of the Assistant Secretary of Defense for Health Affairs. The Army's PRIMUS clinic contract is administered by the Department of the Army.

Question. If there is an interest by one of the Services, why can't one of the Services arrange a demonstration project like the military health access program?

Answer. The New Orleans proposal seeks DoD funding from the CHAMPUS program, which is under the authority of the Assistant Secretary of Defense for Health Affairs. We are unaware of any interest on the part of the Services to provide funding for this proposal.

Question. Why couldn't OCHAMPUS manage this project or similar ones?

Answer. As discussed above, acceptance of this proposal for a noncompetitive contract would not be in the government's interest.

Question. Provide for the record the Department's existing documented plans, milestones, and costs for project IMPRINT.

Answer. The following Fact Sheet outlines the Department's plans for the CHAMPUS Reform Inititative. The timetable for implementation is for an RFI in the spring of 1986, an RFP in the fall of 1986, contract awards in the spring of 1987 and operation in the fall of 1987. An exact cost figure cannot be given before completion of the competitive procurement process. We anticipate that purchasing civilian-provided health care in this method will result in significant government savings, compared with current CHAMPUS budget projections.

FACT SHEET: CHAMPUS REFORM INITIATIVE

Objectives. The CHAMPUS reform initiative is designed to address several serious problems in the military health services system. Currently, the CHAMPUS program is too complex and too costly, both for the government and for beneficiaries; many military hospitals are overloaded, particularly for outpatient care, causing long delays in obtaining appointments; and we are presently unable to care adequately for our wounded in time of war. Reform plans aim to address these problems by adopting innovations like those that have made private sector health programs less costly and complex, by substantially increasing access to free primary outpatient care, and by increasing the ability of military hospitals to provide specialty and inpatient services, particularly those related to wartime medical and surgical specialty needs.

Reduce Beneficiary Costs Under CHAMPUS. The CHAMPUS program, which will spend $1.5 billion this year, currently operates as a bill-paying agency. It has made no attempt to use, as many private sector health care programs have, its nationwide buying power for the advantage of DoD beneficiaries. As a result, CHAMPUS costs have risen faster than private sector health care costs, and DoD beneficiaries who receive care in the civilian community must pay substantial out-of-pocket costs under the copayment requirements of CHAMPUS. DoD seeks to use its nationwide buying power by establishing three regional contracts, covering the entire United States, under which the contractors, for a fixed sum, would become responsible for paying for health care received by DoD beneficiaries from civilian sector providers. Because the contractors would be financially at risk for any care provided in the civilian sector, they will have the incentive to organize high-quality, cost-effective civilian hospitals and physicians into preferred provider networks that will offer services to DoD beneficiaries at reduced costs. Beneficiaries would retain their freedom of choice of civilian providers, reinforcing the incentive for the regional contractors to assure that the "preferred provider" networks are truly attractive to beneficiaries. CHAMPUS program savings that can be gained by adopting cost-effectiveness reforms that have worked in the civilian sector will be returned to beneficiaries in the form of reduced CHAMPUS copayment requirements.

Increase Access to Primary Care. Among the most significant improvements for beneficiaries that will be made possible by adopting these CHAMPUS reforms is increased access to primary care. Currently, the long delays beneficiaries experience in obtaining appointments at overcrowded military hospitals is a leading source of beneficiary dissatisfaction with the military health services system. To deal with the access problem, current plans are to require the at risk contractors to establish primary care centers in areas with overcrowded military hospitals throughout the United States. These centers will provide free primary care to DoD beneficiaries. This primary care will include family practice, pediatrics, gynecology and internal medicine in the context of a normal office-based medical practice. It will also include routine physical examinations and preventive care, services that are presently not paid for by CHAMPUS. Not only will these primary care centers increase the availability of medical services to DoD beneficiaries, they will also act as "gateways" to refer beneficiaries who need speciality services or inpatient treatment to military hospitals, or if care is not available there, to civilian hospitals that are part of the regional contractor's preferred provider network, at which services can be obtained at reduced cost.

Increase Access to Military Hospitals for Inpatient Care. The CHAMPUS reform at risk contracting plan will also help military hospitals take steps to increase the availability of inpatient care at those hospitals. Currently, beneficiaries must obtain many expensive specialty and inpatient services in the civilian community (and comply with CHAMPUS copayment requirements) because of military medical staff shortages. Reduction of the demand for primary care at military hospitals will allow some personnel to be shifted to inpatient and other specialty services. In addition, the regional contractors will be required to supplement military staff by supplying to the military hospital civilian physicians and support personnel when they are needed to meet the demand for specialty care and inpatient services.

Improve Readiness. Another objective of DoD in this CHAMPUS reform initiative is to reduce serious deficiencies in medical readiness. Currently, for example, DoD has only about one-third of the surgeons that would be needed to care for wounded service members in case of war. Improved use of civilian physicians and other medical personnel (both outside the military hospitals in the case of primary care centers, and inside military hospitals in the case of the staff sharing arrangements under the regional contracts) will help assure that the necessary priority is given, within fixed end-strengths, to having adequate numbers of military personnel in the medical and surgical specialities most critically needed to assure wartime readiness. Increasing these specialty capabilities would, of course, also improve access for beneficiaries to these services during peacetime.

Assure Quality of Care. The at risk contracts would also have specific requirements, which are not possible under the current CHAMPUS mechanism, to assure that care provided in the civilian sector is of high quality. These contracts will be awarded on the basis of the quality, cost-effectiveness and attractiveness to beneficiaries contained in the proposals from potential contractors; they will not be awarded on the basis of the "low bid."

Simplify CHAMPUS Procedures. Another objective of the CHAMPUS reform initiative is to simplify CHAMPUS procedures. Currently, beneficiaries often must pay physicians themselves, and then seek reimbursement, often with complicated paperwork and long delays, from CHAMPUS. Under the at risk contracts system, physicians in the preferred provider network would not require beneficiaries to handle the claims submission or make substantial up-front payments.

Preserve Beneficiary Rights. These CHAMPUS reform proposals would not reduce current beneficiary rights. All beneficiaries, including active duty dependents, retirees and their dependents, and survivors, would continue to have the right to use military hospitals. The military hospital system will continue to offer a full range of clinical services, including primary care, pediatrics, and obstetrics and gynecology. No substantial change is anticipated in the total proportion of health care beneficiaries now receive in military hospitals compared to that from civilian providers, currently about 70 - 75% in military facilities and 25 - 30% in the civilian sector. Beneficiaries would also have freedom of choice in selecting civilian physicians and hospitals, as they presently do; if they do not wish to use the free primary care centers or the reduced cost civilian hospitals, they will still be able to use other civilian providers and have the at risk contractor pay the bill under the currently applicable co-pay rules. Also, there would be no reduction in the current CHAMPUS benefit package. In addition, implementation of the CHAMPUS reform plan will have no impact on health care services in overseas locations.

Schedule. Implementation of this initiative must follow federal procurement regulations. Current projections are for the competitive process to be formally initiated in the spring of 1986, to be followed by a call for formal proposals in the fall of 1986. The anticipated implementation date is October 1987.

Question. Provide for the record a description of your negotiations and preliminary plans, to date, for the Watertown, New York health project.

Answer. In January 1986, three representatives from the Department met with representatives of the New York State Department of Health. It was during this meeting that the agreement was reached to charge active duty members assigned to Fort Drum, and their family members, as a maximum, the Blue Cross-Blue Shield rates for hospital services provided by any CHAMPUS-approved hospital in the Watertown area. The Department plans to have Blue Cross-Blue Shield of Rhode Island contact all CHAMPUS-approved institutional and individual health care providers this spring to obtain, where possible; (1) negotiated rates for services which are below those paid by Blue Cross-Blue Shield of New York plans for hospital services; (2) negotiated rates for services which are below that which CHAMPUS would normally pay; (3) acceptance of CHAMPUS assignment; (4) the institution of a simplified claims processing system, which may include electronic billing, to simplify for both the beneficiary and the health care provider, the complexity of claims filing and processing. These normal CHAMPUS activities are receiving increased emphasis now in order to ensure that, as the major troop units arrive at Fort Drum over the next three years, the most efficient and effective quality health care system is in place, representing the optimum in a military-civilian health partnership.

Question. Did OSD circulate Project IMPRINT for comment by the individual Services? If not, why?

Answer. Draft working papers have been circulated to the Services, other Defense Department offices and Members of Congress.

Question. If so, please provide for the record the Services' comments on Project IMPRINT.

Answer. Because these were draft working papers, formal Service comments have not been received.

Question. Provide for the record the medical care pilot projects, and a brief summary of their scope, that have been initiated by Congress and by the Department since 1980.

Answer. There have been four medical care pilot projects initiated since 1980: the Diagnosis Related Group project, the Health Maintenance Organization Project, the Bone Marrow Transplant Project and the Contractor Provider Arrangement for Mental Health Project.

The Diagnosis Related Group (DRG) project was conducted between 1 September 1984 and 31 August 1985 using the MEDICARE reimbursable amounts for all beneficiaries hospitalized in the State of South Carolina. The purpose of this project was to determine if OCHAMPUS could reduce the total government costs using modified MEDICARE reimbursable rates for each DRG. Exempted from the test were pediatric, psychiatric and obstetrical patients. CHAMPUS developed percentage add-ons, based upon MEDICARE costs reports to compensate participating hospitals for their capital and medical education costs. Sixty-five of the seventy-five eligible hospitals participated in the test. Although the project did save CHAMPUS money overall, the evaluation concluded that the MEDICARE weights were inappropriate for the younger more health CHAM-

PUS population and recommended that population specific DRG weights be calculated before the system is proliferated.

The Health Maintenance Organization (HMO) project called "CHAMPUS CHOICE" was originated in July 1981 at Portland, Oregon; Minneapolis, Minnesota; and Houston, Texas. The purpose of the project is to determine if the HMO concept is an effective and efficient method of delivering health care to areas where there is a concentration of beneficiaries and no medical treatment facility available. In the project, CHAMPUS paid a basic premium to one of seven HMOs under contract. The beneficiary had the option of securing additional health care benefits for an additional premium. The project has been well received by the participating beneficiaries.

The Bone Marrow Transplant Project which begins on full scale 15 May 1986, is being conducted jointly by OCHAMPUS and Wilford Hall Air Force Medical Center. The purpose of the project is to test a world wide case management approach in the planning and delivery of care of a low density high cost service. In this project, WHAFMC will conduct or approve the initial work up of all beneficiaries requiring bone marrow transplants. WHAFMC will, during this initial patient evaluation process try to convince the patient to have the bone marrow transplants done at their facility. WHAFMC has the capability of performing both allogeneic and autologous bone marrow transplants. CHAMPUS however only pays for allogeneic transplants as the autologous transplants are still considered an experimental procedure. Any patient who desires to have the allogeneic transplant performed at one of the other twenty-six certified transplant centers will receive a letter of authorization from WHAFMC, which will then be responsible for paying the civilian facility and provider the government portion of the charges. Annually a negotiated amount of dollars is transferred from CHAMPUS to the Air Force, which then uses these dollars to pay for the expanded WHAFMC allogeneic transplant capabilities and for those allogeneic patients who choose to receive care from the civilian sector.

The Contractor Provider Arrangement for Mental Health Project will begin on 1 October 1986. In this project a single provider is being placed "at risk" for providing all civilian mental health services to all beneficiaries in the area and to implement a complete patient management system. This is the first fixed price service-delivery contract in the history of the Military Health Services System. To insure that quality of care is not diminished, a second independent contract for quality assurance and utilization management will run concurrently and assess the appropriateness of care and patient outcome during the project. A third contract, to evaluate the effectiveness and efficiency of the fixed price service contract and the necessity for an independent quality assurance mechanism will also run concurrently with the services contract. Since eighteen percent of all CHAMPUS benefit dollars are paid out for mental health services, this project has significant potential.

Question. Which ones are on-going?

Answer. Three of the projects are "ongoing". The Health Maintenance Organization Project is ongoing. The evaluation of the effectiveness and efficiency of this project will be completed before the end of FY 1986. The Bone Marrow Transplant Project began its case management phase on 1 October 1985 and will begin its patient treatment phase by 15 May 1986. This is a five year project. The Contracted Provider Arrangement for Mental Health Services will begin 1 October 1986 and will continue for up to three years.

Question. What cost savings have been experienced by each of these projects?

Answer. The Diagnosis Related Group project resulted in an estimated savings of $218,000 for the one year of the test. The actual amount of dollars expended during the test was $17,231,000 for benefits and $340,000 for administrative costs of the test. It was estimated that if the usual CHAMPUS charges had been made a total of $17,935,000 would have been expended for benefit services.

The Health Maintenance Organization Project is in the process of being evaluated for cost effectiveness. Preliminary indications are that this project is not cost effective since the beneficiaries are still able to use military treatment facilities and, because of the demographics of this particular population, the beneficiaries are smaller users of services than the remainder of the HMO population pool. In addition, a significant number of beneficiaries who had not been using the CHAMPUS Program but live in the HMO project areas, joined the HMO and dropped their private health care insurance, resulting in net increase in total government costs.

The Bone Marrow Transplant Project is projected to save between $6 Million and $17 Million over the five year life of the project. The actual amount saved will depend upon the number of transplant patients who choose to have the procedure performed at Wilford Hall Air Force Medical Center. No savings have been realized to date.

The Contracted Provider Arrangement for Mental Health Care is expected to save between $2 Million and $10 Million over the three year life of the project. The contract is due to be awarded in late March 1986. The annual cost of the contract may also be adjusted under certain conditions. The true amount of first year savings will not be known for several months. No savings have been realized to date.

[CLERK'S NOTE.—End of questions submitted by Mr. Livingston.]

Mr. ADDABBO. The gentleman from Florida yields to the gentleman from Washington, Mr. Dicks.

Mr. CHAPPELL. For a question, Mr. Chairman.

SHORTAGES OF SUPPORT PERSONNEL

Mr. DICKS. Thank you, Mr. Chairman.

Thank you, Mr. Chappell.

You are quoted in the March 1986 issue of Army Magazine as saying, General Becker, that "shortages in support personnel are right in the heart of our hospital system affecting both peacetime health care and readiness."

You go on to state that "we have to fix our acute care facilities first. That is emergency rooms, intensive care units and things like that. They are just understaffed."

Now, General, you and I have worked long and hard trying to resolve some of the problems we face at the Madigan Army Medical Center. Unfortunately there have been a certain number of cases that have been highly publicized in our state that have caused us to take a look at the situation in Madigan.

Last year the committee accepted my amendment to add $20 million for additional personnel to try and deal with this shortfall and some $7.7 million of that was earmarked for Madigan.

Can you give us a status report on where we stand not only at Madigan but service-wide in the Army? I would like your comment on this what seems to me to be the real problem, and that is the shortage of personnel. By the way, I also raised this with General Wickham to try and give you morale support.

General **Becker**. Yes, sir, and I appreciate that very much, and I appreciate your help and the committee's help with the $20 million because it has meant a lot to us.

As you know, $7.7 million of that was earmarked for Madigan. Since it was near the middle of the year, we have given them $5.4 million to finish out this year.

Next year they will get $7.7 million unless something terrible happens to the budget, something you might not have been aware of, of course.

Mr. **Dicks**. No, I knew that.

General **Becker**. The rest of the $20 million has been spread throughout the medical centers to fix the intensive care units and emergency rooms, and will in fact fix all of them to include some of our community hospitals.

They also have the same kind of problems. Some of our community hospitals are larger than some small medical centers, as you know, like Fort Bragg and Fort Hood with very large and busy emergency rooms.

So that money—I have a list of where that is broken down and would be glad to provide that detail for you.

[The information follows:]

FISCAL YEAR 1986 MEDICAL ENHANCEMENT PROGRAM DISTRIBUTION OF FUNDS

Facility	ICU		ER		Ancillary		Total	
	WYs	Amount	WYs	Amount	WYs	Amount	WYs	Amount
BAMC	21.0	$478	7.0	$178	13.8	$304	42	$906
DDEAM	7.0	174	5.0	102	12.8	283	25	559
FAMC	8.0	176	4.0	80	7.9	175	20	431
LAMC	5.0	110	2.0	52	10.9	240	18	402
MAMC							143	[1] 5,400
TAMC							69	[1] 1,810
WBAMC	12.0	268	3.0	70	11.8	261	27	599
WRAMC					13.8	305	14	305
Belvoir	2.0	56	4.0	96			6	152
Benning	6.4	186	3.3	78			10	264
Bragg	14.8	414	12.8	308			28	722
Campbell	3.2	90	6.2	148			9	238
Carson			4.1	100	7.9	174	12	274
Devens			4.6	110			5	110
Dix	1.4	40	5.5	132	2	44	9	218
Eustis	2.8	78	4.0	96	2	44	9	218
Harrison			1.4	34			1	34
Hood	10.9	304	9.0	216	9.9	218	30	738
Huachuca	1.6	44	5.6	134	1	22	8	200
Irwin			2.8	66	1	22	4	88

FISCAL YEAR 1986 MEDICAL ENHANCEMENT PROGRAM DISTRIBUTION OF FUNDS—Continued

Facility	ICU		ER		Ancillary		Total	
	WYs	Amount	WYs	Amount	WYs	Amount	WYs	Amount
Jackson	3.3	92	3.2	76	2.9	65	9	233
Knox	2.6	74	4.2	100			7	174
Leavenworth			3.3	78	1	22	4	100
Lee			4.8	112			5	112
Leonard Wood	14.4	404	1.4	34			16	438
McClellan			1.8	44	2	44	4	88
Meade	3.2	90	4.7	112			8	202
Monmouth	.8	22	3.3	78	2.9	65	7	165
Ord	6.1	170	6.5	156			13	326
Panama			.9	22	6.95	153	8	175
Polk			4.8	114	2	44	7	158
Redstone	4.0	112	3.0	88	1	22	9	222
Riley	3.1	86	8.5	204			12	290
Rucker	1.2	34	1.5	36	3.9	87	7	157
Sill	12.4	348	15.7	376			28	724
Stewart	4.6	130	1.7	40	6.9	152	13	322
West Point			3.8	88	1	22	5	110
Total	151.8	3,980	157.4	3,758	125.4	2,768	651	17,716

[1] Funds distributed to MAMC and TAMC without regard to allocations of WYs to Special Services.

General Becker. Rest assured, it has gone to where it was intended.

Mr. Dicks. I want to compliment Admiral Seaton. I thought all three statements were good, but, Admiral, that was a straight-up, candid statement that I think was right on target.

What bothers me, Mr. Secretary, is that we have a clear-cut case of not having enough personnel in each of our Services to do the assignment that they have been given. I just can't understand why the administration is unwilling to deal with this problem.

We have a skyrocketing problem here in malpractice claims that are being brought against each of our Services. It is very, very expensive. What we have to pay out in medical malpractice partly because of shortfalls in personnel, bad recordkeeping, et cetera, is just horrendous.

It seems to me it would be a much wiser approach from the Services' perspective and from the Department's perspective to do a little preventive medicine, and that is get the nurses you need, get the medical staffing that you need to minimize this potential liability to the Federal Government. It is a much better way to go.

Let me give you the number at Madigan. With respect to the total claims, $202 million claims pending, and 21 case in litigation representing a total of $153 million.

Now, we are talking about $20- or $30 million to get the personnel necessary to deal with these shortages. I just can't understand this even in a Gramm-Rudman-Hollings era. It doesn't make sense to understaff these facilities and leave yourself open to litigation.

I would like to know what the administration is doing about it.

Dr. Mayer. Mr. Dicks, thank you for that question, because that is uppermost in the minds of all four of us here, that is a clearly emerging and demonstrable need for additional medical personnel, particularly support personnel.

There hasn't been a reluctance on the part of the administration to fix that problem at all. But until these three gentlemen came aboard and took over their services, until we started getting some real and effective joint assessments of our actual manpower requirements which didn't exist in any consistent way in the past—and I don't say this in criticism of my predecessors or the predecessors of these surgeons, but the truth is that until recently, it has not been evident with precision and with reliability exactly how many additional people we need.

These three men have gone to bat to find out exactly what is needed. They have asked the dean and some of the faculty from the University of Washington to come and look at Madigan, give us advice how best to run it.

The Navy, as you saw, is trying to make administrative changes in downgrading, cutting down at least their size and specialty mix in some of their smaller places.

We have not had the tools in the past to assess with real accuracy exactly what our manpower requirements are. We don't have complete tools yet, I have to add.

But there is no question, even with the tools at hand, that we can demonstrate—I was particularly moved in Europe by this demonstration—we can demonstrate that we have to have more medical staff.

Mr. DICKS. Mr. Secretary, the Army has done internal audits from the Inspector General that pointed out the deficiencies and yet it took a long time for those internal audits to be acted upon. This was something that was not unknown.

Dr. MAYER. That is right.

Mr. DICKS. It was well known that there were deficiencies. The problem was when it got down to allocating personnel within the Services, they didn't get the people necessary to do the job.

I hope I didn't give the impression that all I am concerned about is the cost of litigation. I am concerned about the children of dependents whose lives have been lost. I know this has gotten out in the press and people don't like it. But my opinion is that the press has done us a great service; because of the press attention, I think we are getting a lot more attention out of the Defense Department on these issues.

So I am not going to beat up on the press on this but there were reports that were available in each of the Services indicating these shortfalls and at Madigan we had a problem with accreditation. We were going to lose the accreditation of that hospital.

How many other hospitals do we have in the military system where we are now having a problem with the accreditation?

Dr. MAYER. None.

Mr. DICKS. I hope that is true.

Dr. MAYER. That is true.

Mr. DICKS. Thank you, Mr. Chairman.

I have a series of questions I would like to ask for the record.

Mr. ADDABBO. Without objection.

[CLERK'S NOTE.—Questions submitted by Mr. Dicks and the answers thereto follow:]

MEDICAL ENHANCEMENT

Question. What is the status of allocation of the $20 million provided by the conference for enhancement of ancillary support personnel?

Army Answer. The $20 million provided by the conference for enhancement of ancillary support personnel was distributed as follows. The Army will provide a quarterly report on the obligation of funding and employment levels for the quarter ending 31 March 1986, since this will be the first quarter in which funds are available.

FISCAL YEAR 1986 MEDICAL ENHANCEMENT PROGRAM DISTRIBUTION OF FUNDS

Facility	ICU		ER		Ancillary		Total	
	WYs	Amount	WYs	Amount	WYs	Amount	WYs	Amount
BAMC	21.0	$478	7.0	$178	13.8	$304	42	$906
DDEAMC	7.0	174	5.0	102	12.8	283	25	559
FAMC	8.0	176	4.0	80	7.9	175	20	431
LAMC	5.0	110	2.0	52	10.9	240	18	402
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Irwin			2.8	66	1	22	4	88
Jackson	3.3	92	3.2	76	2.9	65	9	233
Knox	2.6	74	4.2	100			7	174
Leavenworth			3.3	78	1	22	4	100
Lee			4.8	112			5	112
Leonard Wood	14.4	404	1.4	34			16	438
McClellan			1.8	44	2	44	4	88
Meade	3.2	90	4.7	112			8	202
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Stewart	4.6	130	1.7	40	6.9	152	13	322
West Point			3.8	88	1	22	5	110
Total	151.8	3,980	157.4	3,758	125.4	2,768	651	17,716

[1] Funds distributed to MAMC and TAMC without regard to allocations of WYs to Spoical Services.

Question. Specifically, what is the status of the $7.7 million provided for Madigan Army Medical Center?

Army Answer. Because funds were received after the beginning of the fiscal year, Madigan Army Medical Center will not have full year expenses for the additional support staff. Consequently, they have been allocated $5.4 million in FY 1986. They will receive the $7.7 million for FY 1987.

QUESTION. What is included in the FY 87 budget request for Army to build on this initiative? What is total funding requested and how does this compare to the level provided by Congress for FY 86?

ARMY ANSWER. In addition to the $20 million provided by the Congress for FY 86, an additional $4.8 million is included in the FY 87 Budget request to build on this initiative.

QUESTION. The Committee report requested the Army to provide

(1) a quarterly report on the obligation of this funding and the employment levels at each of the medical centers that receive additional staff

(2) by April 8, 1986 a plan for achieving a 90–95% staffing level at medical facilities at the end of FY 88

(3) a study of the actual peacetime staffing requirements for Army medical facilities 30 days after the enactment of this act, and

(4) by September 30, 1986, the Army's staffing requirements for CONUS medical facilities during wartime.

What is the status of Army's compliance with each of these directions?

ARMY ANSWER. The Army will provide a quarterly report on the obligation of funding and employment levels for the quarter ending 31 March 1986, since this will be the first quarter in which funds are available. A recent study of the peacetime staffing requirements, showed that treatment facilities were understaffed. However, in November 1985, the CSA approved initiatives which will increase authorizations or contract manpower in all medical facilities beginning with FY 1987. The initiatives, coupled with The Surgeon General's management actions to realign manpower authorizations to critical patient care functions, will significantly reduce the remaining shortfall. The resource display below indicates all treatment facilities will be brought up to at least a 90 percent staffing level by end of FY 1988 and a 93.9 percent staffing level by end of FY 1992. The Army will be initiating plans to achieve 95 percent staffing level at medical facilities at the end of FY 1988. The Army will also submit its staffing requirement for CONUS medical facilities during wartime by September 30, 1986.

WORLDWIDE MEDICAL CARE

(HSC, EUROPE, KOREA, JAPAN)

	FY87	FY88	FY89	FY90	FY91	FY92
Requirements	53,225	52,918	52,671	52,928	53,210	53,750
Auth w/initiative (Jan 86 PBG)	44,989	48,038	48,831	49,593	49,956	50,496
Delta %						
.95	5,575	2,234	1,206	689	594	567
.90	2,914	(412)	(1,427)	(1,958)	(2,067)	(2,121)

QUESTION. A major factor in the Committee's action was the fact that Army medical centers were in danger of losing accreditation unless staffing shortfalls in support personnel were addressed.

What is the present situation on this issue, both for Madigan and for other Medical Centers?

Army Answer. As yet we have been unable to determine the ultimate outcome of the staffing issue on accreditation status. Our corrective actions at Madigan Army Medical Center are still under review by the Joint Commission on Accreditation of Hospitals (JCAH). Since the special JCAH visit to Madigan in July 1985, we have received JCAH reports on two other medical centers. One of the two reports cited a need to increase staffing as a contingency to continued accreditation.

Question. General Becker, you are quoted in the March 1986 issue of Army magazine as saying that the shortages in support personnel "are right in the heart of our hospital system", affecting both peace-time health care and readiness. You go on to state that "We have to fix our acute hurts first, that is emergency rooms, intensive care units and things like that—they are just understaffed."

Please discuss your efforts in these specific areas in some detail and provide for the record a breakdown of the increases in each of these areas that will be provided by the Congressional add-on in FY 86 and by the FY 87 budget request.

Army Answer. The goal of the Army Medical Enhancement Program is to improve accessibility and the quality of care in medical treatment facilities while increasing patient satisfaction. The objective is to improve productivity through more efficient use of resources. Integral to this program is the need to obtain full resourcing of our ancillary support needs. Specific workyear and dollar increases to be achieved in the emergency room, intensive care units, and ancillary support activities with the FY 86 congressional add-on are shown in the following distribution.

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MAMC							143	[1] 5,400
TAMC							69	[1] 1,810
WBAMC	12.0	268	3.0	70	11.8	261	27	599
WRAMC					13.8	305	14	305
Belvoir	2.0	56	4.0	96			6	152
Benning	6.4	186	3.3	78			10	264
Bragg	14.8	414	12.8	308			28	722
Campbell	3.2	90	6.2	148			9	238
Carson			4.1	100	7.9	174	12	274
Devens			4.6	110			5	110
Dix	1.4	40	5.5	132	2	44	9	216
Eustis	2.8	78	4.0	96	2	44	9	218
Harrison			1.4	34			1	34
Hood	10.9	304	9.0	216	9.9	218	30	738
Huachuca	1.6	44	5.6	134	1	22	8	200
Irwin			2.8	66	1	22	4	88
Jackson	3.3	92	3.2	76	2.9	65	9	233
Knox	2.6	74	4.2	100			7	174

FISCAL YEAR 1986 MEDICAL ENHANCEMENT PROGRAM DISTRIBUTION OF FUNDS—Continued

Facility	ICU		ER		Ancillary		Total	
	WYs	Amount	WYs	Amount	WYs	Amount	WYs	Amount
Leavenworth			3.3	78	1	22	4	100
Lee			4.8	112			5	112
Leonard Wood	14.4	404	1.4	34			16	438
McClellan			1.8	44	2	44	4	88
Meade	3.2	90	4.7	112			8	202
Monmouth	.8	22	3.3	78	2.9	65	7	165
Ord	6.1	170	6.5	156			13	326
Panama			.9	22	6.95	153	8	175
Polk			4.8	114	2	44	7	158
Redstone	4.0	112	3.	88	1	22	9	222
Riley	3.1	86	8.5	204			12	290
Rucker	1.2	34	1.5	36	3.9	87	7	157
Sill	12.4	348	15.7	376			28	724
Stewart	4.6	130	1.7	40	6.9	152	13	322
West Point			3.8	88	1	22	5	110
Total	151.8	3,980	157.4	3,758	125.4	2,768	651	17,716

[1] Funds distributed to MAMC and TAMC without regard to allocations of WYs to Speical Services.

An additional $4.8 million for Medical Enhancement are included in our FY 1987 budget request. These funds will provide for improved ancillary support at our European based facilities as well as those facilities located in the United States.

QUESTION. One factor cited in the Army magazine article on the medical program for a shortage of nurses is the slow promotion rate under DOPMA which tends to lump all nonphysician medical officers together. Do you agree that this is a factor, and if so, what should be done about it?

ARMY ANSWER. While the actual strength of Army Nurse Corps officers is projected to meet FY 1986 budgeted end strength levels, promotion timing for these officers is an area of concern. Currently, promotion timing to the grade of Major for nurses and other commissioned non-physician providers of health care is relatively slow when compared to other Army officers. We are in the process of resolving this timing issue to avoid any negative impact on the recruitment and retention of these officers in the future.

QUESTION. Civilian personnel ceilings also are cited as a problem in this area. The Congress has, for the last two years, prohibited the imposition of such ceilings. How then can this be a problem?

ARMY ANSWER. This is not a problem. The Army has not had a civilian personnel end strength ceiling for the past two years.

QUESTION. The funds provided in the FY 1986 appropriation gave you freedom to mix between contract personnel, federal civilians, or uniformed personnel. My office has received some complaints concerning contract personnel who frequently do not provide the full numbers contracted thus forcing regular personnel to work extra hours. What is your experience on this question, are we making sure that the contractors perform as advertised?

ARMY ANSWER. Headquarters, Health Services Command is unaware of any complaints, as noted, either pertaining to doctors or nurses. Every effort is being extended to ensure maximum efforts of personnel in compliance with terms of their contracts.

MEDICAL MALPRACTICE

Question. The Department is facing ever increasing medical malpractice claims and settlements. Total claims resolved increased in cost from $29 million in FY 82 to $41 million in FY 84, an increase of over 50%. Data we were provided last year for the first six months of FY 85 were on an annual pace of $54 million, an increase of over 80% since 1982. What are the final figures for FY 1985 malpractice claims paid?

Answer. The attached table provides the final figures for FY 1985 malpractice claims paid. The total dollar amount was $62 million. However, I would quickly add some cautions for interpreting these numbers. The percent change in dollars paid 1982 to any subsequent year is misleading for several reasons. First, more claims were resolved in 1985 than in 1982. Second, to trend the cost data, claims should be grouped by the year in which they were filed, rather than the year in which they were resolved. This breakout is not possible under the current DoD reporting system, but revisions under consideration would address this issue.

MALPRACTICE CLAIMS RESOLVED WITH MONEY PAID[a] DURING FISCAL YEARS 1982-1985
NUMBER OF CLAIMS, TOTAL DOLLARS, AND AVERAGE DOLLARS PER CLAIM
BY TYPE OF DISPOSITION, TOTAL DOD

Fiscal Year	Administratively Handled[b]			Litigated[c]			Total Claims		
	No. Claims	Total $	Avg $	No. Claims	Total $	Avg $	No. Claims	Total $	Avg $
1982	167	11,668,389	69,871	106	17,289,469	163,108	273	28,957,858	106,073
1983	163	14,288,202	87,658	116	19,628,023	169,207	279	33,916,225	121,564
1984	185	13,198,713	71,344	146	28,130,517	192,675	331	41,329,230	124,862
1985	213	24,162,625	113,440	157	38,327,043	244,121	370	62,489,668	168,891

[a] Includes both settlements and awards

[b] Resolved by the Military Departments' Claims Services

[c] Resolved by the U.S. Department of Justice

Compiled By: Office of the Assistant Secretary of Defense (Health Affairs)
(Professional Affairs and Quality Assurance)

Question. What is the backlog of unresolved claims?

What steps are you taking to help control these costs?

Will staffing increases help address the problem?

Army Answer. There are currently 213 medical malpractice cases pending in litigation. Additionally there are approximately 572 cases pending in the administrative claims phase at the U.S. Army Claims Service. We have undertaken several initiatives in an attempt to contain malpractice losses. We have assigned a military attorney to the risk management team at each of our 8 medical centers. Training courses conducted by the Staff Judge Advocate for these team members emphasized the early investigation of potential compensable events and medical malpractice cases. Provider activity profiles have also been adopted to document each provider's clinical and professional activities and assist in identifying patterns and trends of practitioners. Finally, all aspects of the Army Medical Department QA program are continuing to receive attention and emphasis. All these efforts have assisted in maintaining a static malpractice claims-filed rate. The FY83 rate was 6.5 per 100 Army physicians; FY84 was 6.5, and FY85 was 6.4.

Navy Answer. Information obtained from the Office of the Judge-Advocate General's Claim Division which is responsible for adjudicating and monitoring claims against the Navy indicates the folliowing:

Of 224 claims filed in FY 1985, 201 remain open
Of 192 claims filed in FY 1984, 125 remain open
Of 182 claims filed in FY 1983, 61 remain open
Of 145 claims filed in FY 1982, 25 remain open
Of 149 claims filed in FY 1981, 15 remain open
Of 91 claims filed in FY 1980, 4 remain open

Open claims include those still under investigation, those which have been denied but in which the time for the claimant to sue has not run out, those in litigation and under the cognizance and control of a U.S. Attorney and those in which a trial court decision has been reached but the time for an appeal hasn't expired.

Claims are not considered truly resolved or closed until the claimant has no further legal remedy such as lawsuit or appeal. Thus, some of the "open" claims will have no further action but won't be closed until a certain time passes.

The costs associated with malpractice claims result from someone's judgment (a claims adjudicator, a trial judge, an appellate court) that the care provided fell below the acceptable standard, that malpractice occurred and the claimant suffered damages. The remedy is better care and and/or more prompt, effective corrective action which mitigates or limits the compensable loss to the patient.

Our principal effort in this area is improving the quality of care provided in our medical treatment facilities through enhanced credentialing, risk management and quality assurance programs. We believe that improvements in these areas will ensure better care and contribute to lower malpractice settlement or judgments.

To fully implement our existing policies in these areas we do need increased resources—principally in the nature of personnel and labor savings computer capabilities. Currently, our quality assurance (QA) programs are staffed with people who formerly provided patient care. We have had to take these QA personnel from existing resources and the successful implementation of our QA program has been hindered because of that.

Implementation is manpower intensive and a number of billets are not filled because of manpower constraints. Staffing increases would definitely help address the problem.

AIR FORCE ANSWER. For the Air Force, $13.8 million and $16.5 million were paid in FYs 82 and 84, respectively. In FY 85, $15.1 million was paid. As of March 13, 1986, we had 316 unresolved cases, a 12.5% decrease from this same time last year. The Surgeon General implemented a broad quality assurance program to help prevent the situations which lead to medical malpractice. The Judge Advocate General aggressively acts on all claims to ensure they are settled promptly, fairly and economically. The American Medical Association reported a 114% increase in the number of malpractice claims filed over the last six years in the civilian sector. During that same period, claims against the Air Force rose about 26%. While our rate of increase is significantly lower, our best efforts, including manning, may have no direct effect on controlling the number of malpractice claims filed. Society, in general, has become very litigious.

UNIFORMED SERVICES TREATMENT FACILITIES

QUESTION. Dr. Mayer, I understand that the Department has successfully renegotiated participation and payment agreements with former U.S. Public Health Service Facilities, at least one of which includes a fixed rate payment mechanism.

(1) Has the relationship with the USTFs improved since the new agreements have taken effect?

(2) Has your experience with the fixed rate payment mechanism been positive?

(3) Are you looking to expand on its use?

Answer. All USTF negotiated rates agreements except one are fee-for-service reimbursement mechanisms. The Department's experience with the fee-for-service agreements has not been favorable from a cost containment perspective. USTF costs increased overall 33.7% from calendar year 1984 to CY 1985. The sole exception to the cost growth trend was the one fixed price agreement in which costs were held to a 2.4% increase from CY 1984 to CY 1985. However, that contract was altered in March 1986 when the Washington State Hospital Commission raised the allowable average rates charged by the facility so that the hospital could meet a significant increase in malpractice premiums charged by the Washington Hospital Insurance Fund. Despite the recent increases, the fixed price arrangement is a valid cost containment mechanism and the Department is currently exploring the possibility of renegotiating some fee-for-service agreements to make them fixed prices.

[CLERK'S NOTE.—End of questions submitted by Mr. Dicks.]

MEDICAL STAFFING

Mr. ADDABBO. Dr. Mayer.

Dr. **Mayer**. You are asking the wrong people, Mr. Dicks, why the Services didn't see fit to put more people into their medical strength.

In fact, when I asked General Rogers the other day about decreasing American troop ceiling in Europe, the first thing he said was, "Who do I send home, some tankers, infantry people?"

We are in the era now of competing deficiencies. So the services, for whatever reasons, did not decide to give, even in response to earlier studies by IGs and auditors, more people to the medics.

DEFENSE HEALTH BUDGET

This illustrates the one major point I want to make. There is no medical budget in the Army or in the Navy or in the Air Force or in the Department of Defense. There is no central management of that kind of problem.

I don't believe in setting up some kind of an agency, a new level of government with a bunch of bureaucrats to tell us how to run the medical services in the armed services. These people are competent to do that.

But there has to be, in this finite era of money, we have to find out where the money is and make informed decisions as to both manpower and dollars across the Services and that to me means there should be some kind of medical budget.

Mr. **Dicks**. In the Defense Department?

Dr. **Mayer**. Yes, sir. Not extending to operational units, not to the division in the field or the ship. Those medics have to belong to the commander.

Mr. **Dicks**. Right.

Dr. **Mayer**. But the bulk of our medical system is not on ships and in the divisions; the bulk of our system is in 168 hospitals around the world and three huge logistical systems. We try to manage that.

We are trying to bring about some central management without appointing a csar of medicine, without instituting a new bureau or new defense health agency, without putting these people in purple suits. They belong in the systems they are in.

But the business is too big now to manage hit or miss and to compete within each service, because if the Army can't compete for a hospital in Europe, but the Air Force can near by, then fine, we can make those adjustments. As long as we have some handle on the whole thing. We don't now.

I must say I have never said this before to a committee of the Congress, I believe that in running a $10 to $12 billion budget—I say $10 to $12 because we have to do a detailed analysis just to find out where the money was spent and to determine with respect to how much was given at the beginning of the year, how much actually was spent as budgeted.

What I am saying, and I know that this may not be popular, I am saying it as a private individual, but I have been running this system now for two-and-a-half years, and I tell you that it is not manageable without a defense health budget. Somebody has to be responsible.

Mr. **Dicks**. We will talk to the authorization committee.

Dr. **Mayer**. Thank you, sir.

SHORTAGE OF PERSONNEL

Mr. **Addabbo**. Go ahead, General.

General **Becker**. Just one minute, on that point. The Army staff was not readily aware of the problem of the shortage of personnel, certainly not of the full amount of the shortage.

Mr. **Dicks**. This is the general staff?

General **Becker**. Yes, sir, the general staff, the ones who really appropriate the things. Now they are.

Mr. **Dicks**. You told them?

General **Becker**. Yes, sir.

Mr. **Dicks**. I was told that. General Wickham said you gave him a plan and you will straighten it out.

General **Becker**. And they have supported it.

I have an insert that I would like to give you for the record of the Chief of Staff's initiatives in the five-year plan that shows their support, because they need to be applauded for their work.

The support in this committee has made the difference.

Mr. **Dicks**. We are going to keep pushing.

General **Becker**. Thank you.

Mr. **Addabbo**. Without objection, that insert will be made part of the record.

[The information follows:]

The attached charts depict the Chief of Staff's cost estimates I planned medical program initiatives for FY 87-91 and the Army Medical Enhancement Program initiatives for FY88-92.

ARMY MEDICAL ENHANCMENT PROGRAM FY 88 - 92

PROGRAM	DESCRIPTION	FY88	FY89	FY90	FY91	FY92
Anc Sup Pers	Continues to bring staff level in patient care units to accreditation standards	12056	12056	12056	12056	12056
ER/ICU	Mitigates critical staffing shortage in ER/ICU units	7412	14832	14832	14832	14832
Pat Appt Sys	Improves accessibility into military health care system	2850	2850	2850	2850	2850
Fam Prac Clinic	Implements a primary care delivery based system	2930	8043	15678	24223	40585
Med Treat Fac	Measures the effects of complete staffing at Ft. Campbell and Ft. Knox	3456	6912	6912	6912	6912

MEDICAL PROGRAM INITIATIVES FY 87-91

PROGRAM	DESCRIPTION	FY87	FY88	($000) FY89	FY90	FY91
Pers Svcs Con	Provides funding to obtain additional direct care providers	5660	14589	20818	27228	31310
OB/GYN	Expands and improves OB/GYN care to key installations	1321	3727	240	7023	7023
Surg Enhancement	Increases surgical capability at Tripler and Ft. Campbell		5364	5351	5353	5353
Psychiatric Care	Expands and improves Psychiatric care at key installations	1981	2000	2018	2034	1987
Fam Prac Med Sup	Provides additional medical support for the Family Action Program		8182	13158	24645	24645
QA	Enhances monitoring of quality of health care provided in USAREUR MTFs.	260	520	520	520	520
Med Anc Sup	Brings staff level in patient care units in USAREUR to accreditation standards.	849	1273	1667	1949	2377

ARMED FORCES INSTITUTE OF PATHOLOGY

Mr. **Addabbo**. Mr. Secretary, the Armed Forces Institute of Pathology, which is located at Walter Reed, I feel is one of the most important yet low-profile institutions that serve all the military services and even I believe the civilian sector when called upon.

Describe for the record the responsibilities and services rendered by the Armed Forces Institute of Pathology.

[The information follows:]

The responsibilities and functions of the Armed Forces Institute of Pathology are set forth in Department of Defense Directive 5154.24. This extensive list of responsibilities to the Department of Defense, other Federal Agencies and civilian pathology communities may be summarized as follows:

A. Provide consultation services in pathology for DoD, other Federal Agencies and civilian pathologists.
B. Conduct research in the broad field of pathology.
C. Provide education in pathology and related subjects.
D. Conduct and maintain appropriate programs to:
1. manage the Center for Advanced Pathology.
2. manage the Center for Advanced Medical Education.
3. contract with the American Registry of Pathology for cooperative medical education, research and consultation.
4. train enlisted histotechnicians.
5. collect, prepare, maintain and diseminate pathology teaching materials.
6. maintain a medical illustration service.
7. operate and maintain the Armed Forces Medical Museum.
8. maintain a medical-legal consulting service. We are currently reviewing these functions to determine if changes are needed.

Mr. **Addabbo**. Also, supply for the record funds provided out of DoD under the general fund or some data with this in mind and place it in the record.

Dr. **Mayer**. Yes, sir.

[The information follows:]

The Armed Forces Institute of Pathology (AFIP) provides a consultation service for the Department of Defense and other Federal agencies and civilian pathologists, and it serves as the chief reviewing authority on the diagnosis of pathologic tissue for the Service components. AFIP also conducts experimental, statistical, and morphological research and investigation in the broad field of pathology, including correlation with other medical specialties. Additionally, it provides education and training in pathology and related subjects.

The Armed Forces Institute of Pathology is a joint agency of the Military Departments, subject to the authority, direction, and control of the Secretary of Defense. The Secretary of the Army is responsible for providing administrative support—within the resources available to the Army for such purposes—for the operation of AFIP.

With Army being the executive agent for AFIP, Army appropriations provide the great majority of resources required for operating the activity. Military personnel are drawn from the Army, Navy and Air Force to meet AFIP's staffing needs. Civilian staff are funded from the Operation and Maintenance, Army appropriation. Additionally, the Veterans Administration provides civilian staff. The resources are as follows:

FUNDS

[In thousands of dollars]

	Fiscal year—		
	1985	1986	1987
Operation & Maintenance, Army	17,656	16,884	16,400
Other Procurement, Army	571	1,300	1,000

FUNDS—Continued

[In thousands of dollars]

	Fiscal year—		
	1985	1986	1987
Military Personnel:			
Officers:			
Army	52	51	51
Navy	23	23	23
Air Force	25	27	27
Total	100	101	101
Enlisted:			
Army	31	31	31
Navy	27	27	27
Air Force	39	42	42
Total	97	100	100
Civilian Personnel:			
Army Civilians	357	358	358
Veterans Administration Civ	23	23	23

Mr. Addabbo. Please provide answers to the rest of the committee questions for the record.

[Clerk's note.—Questions submitted by Mr. Addabbo and the answers thereto follow:]

IMPROVING BENEFICIARY CARE

Question. Dr. Mayer, there has been many complaints about the CHAMPUS system which provides medical treatment from civilian providers. There are about 7.6 non-active military beneficiaries that are eligible for care from the Department of Defense. Approximately, 5 to 5.7 million are now treated at military facilities. Approximately 2 million beneficiaries obtained their medical treatment through the CHAMPUS system which provides reimbursements to civilian providers.

Dr. Mayer, you have indicated that there will be a shift in the care provided to the beneficiaries of the military health care system. Your plan, as I understand it, will be to shift some of the non-emergency and less complex medical treatments to the civilian sector, while maintaining the surgical and complex medical treatment capabilities within the military facilities. Is this correct?

OSD Answer. Among the purposes of the CHAMPUS Reform Initiative is the goal of allowing increased concentration in military facilities on readiness objectives, including the types of care most relevant to wartime medical needs, and resolving access problems in presently overcrowded military facilities, particularly for outpatient primary care. We seek to increase opportunities for our beneficiaries to receive affordable primary care in the civilian sector under the CHAMPUS program and to receive inpatient care and certain outpatient specialty care in military hospitals. This will result in some adjustment in the respective amounts of particular types of care beneficiaries will receive in military facilities and the civilian sector. However, the military system will continue to provide the full range of services; there is no plan to eliminate any type of care in the military system. In addition, and most importantly, we anticipate no significant change in the total amount of care our beneficiaries receive in military hospitals compared with the civilian sector, presently about 70–75% in military and facilities and 25–30% in the civilian community under the CHAMPUS program. We do anticipate, however, that by providing more complicated care in military hospitals, we can reduce the amount of beneficiary out-of-pocket costs.

QUESTION. Your plan could provide a contractor with the authority to provide care nationwide to those beneficiaries who do not use military hospitals and clinics. Is this true?

Will this new plan eliminate the need for CHAMPUS or do you plan to have both a nationwide contractor and CHAMPUS arranging care for DoD beneficiaries that are not using the military hospital and clinics? Would there be any savings in eliminating the need for CHAMPUS?

OSD ANSWER. The CHAMPUS Reform Initiative will not abolish or replace the CHAMPUS program. It will reform the method under which CHAMPUS now pays for care provided to our beneficiaries by civilian sector providers. Currently, CHAMPUS purchases care on a self-insurance, fee-for-service basis, with no attempt to give our beneficiaries an opportunity to use reduced-cost, organized health care provider networks. The reform initiative seeks to establish three regional contracts, covering the entire United States, under which competitively-selected contractors would assume the financial risk for any care provided to CHAMPUS beneficiaries in the civilian sector. These contractors would be responsible for establishing high quality, cost-efficient provider networks that agree to accept CHAMPUS assignment for all care. The beneficiary will still retain the freedom not to receive care from these networks. The Office of CHAMPUS (OCHAMPUS) will administer these contracts. We anticipate that by creating the mechanism for the establishment of cost-effective provider networks and by purchasing care on a fixed-price, at-risk basis, DoD will achieve both better services for our beneficiaries and reduced costs to the government.

QUESTION. How does the Department plan to control access to this one program run by a contractor? Currently, the CHAMPUS system has the DEERS system that identifies valid recipients of care. Does the new program provide for this kind of system?

OSD ANSWER. Under the regional contracts, the Defense Eligibility Enrollment System (DEERS) would continue to be used to verify beneficiary eligibility for CHAMPUS-funded health care services.

QUESTION. Wouldn't this new program relieve the Government and the Department of Defense of its responsibility to provide care to military dependents? Doesn't this really throw the responsibility to a contractor instead of the Department of Defense?

OSD ANSWER. Beneficiary entitlements to health care services are established by law, and DoD has the responsibility to assure that this care is provided in accordance with the law. This responsibility, and its accompanying accountability, would not be changed by the CHAMPUS Reform Initiative. Just as now, beneficiaries will continue to have the right to receive care in the civilian community and have that care paid for by CHAMPUS, as set forth in the law. The only change is the method under which CHAMPUS will pay for that care, and the resulting improvements in beneficiary services due to the creation of cost-effective provider networks.

Question. How does this affect the liability of the Government to provide quality care to the beneficiary? How can we guarantee the quality of care and how will the Department deal with negligence if a contractor is the party coordinating health care?

OSD Answer. Currently, CHAMPUS has few standards and procedures to assure the quality of civilian-provided care to our beneficiaries. Stronger quality assurance standards and procedures will be built into the at-risk contracts, including licensing, accreditation and certification standards, and internal quality assurance requirments. A separate external independent peer review program will be implemented to assure that quality of care is not compromised. With respect to malpractice liability, just as now, civilian providers who receive payment from CHAMPUS for care provided to DoD beneficiaries are responsible for the quality of the care provided and legally accountable for negligence.

Question. It seems that this new program will cause Congress and DoD to lose control over medical care provided to the beneficiaries. Do you agree with this? How does DoD plan to remain in control of the medical care for beneficiaries?

OSD Answer. All policy-making authority regarding CHAMPUS benefits and program direction and control will remain with the Department and will be administered in accordance with the law. Presently, CHAMPUS operates essentially as an insurance company, paying claims for medical care received by CHAMPUS beneficiaries from civilian providers. The "control" over medical care provided in the civilian sector consists essentially of deciding what claims to pay. By establishing a much more organized system of health care services delivered in the civilian sector under the umbrellas of the regional contracts, management and accountability will be strengthened.

Question. With the administration of the health care to DoD beneficiaries in the hands of an outside contractor, how will this affect the ability of Congress to direct pilot and test programs that further medical care provided for DoD beneficiaries?

OSD Answer. The contract will include provisions for the Department to direct, either pursuant to Congressional action or on its own initiative, changes in the contractor's responsibilities.

Question. Will there be a threat of contract disputes and possible physician strikes? Is there anyway to prevent strikes?

OSD Answer. CHAMPUS presently has contractual arrangements with private sector health care providers. Procedures exist for the resolution of disputes that arise. This will continue to be the case under the new system. With respect to labor disputes and strikes, under the present system, physician strikes or other events may affect the ability of any health care provider to provide services. Just as now, when this occurs, beneficiaries receive care from other providers and CHAMPUS pays the bill. This will continue to be the case under the new system. Existing providers may continue to offer services to CHAMPUS beneficiaries and those beneficiaries will continue to have the freedom to choose their providers. The new system will give the beneficiaries more providers and provider groups from which to choose and a great opportunity for out-of-pocket savings.

DEPENDENT DENTAL CARE

QUESTION. The fiscal year 1986 Authorization Bill authorized a change in CHAMPUS services to provide dental care for active dependents. According to the Authorization Bill, no contracts for dependent dental care could be signed and no funding obligated until September 30, 1986.

What are the Department's plans for dependent dental care in fiscal year 1987? How much is budgeted and where are these amounts found in the fiscal year 1987 budget justification?

OSD ANSWER. In compliance with the Authorization Act and Conference Committee direction, the Department is proceeding, up to the actual award of any contract, with all possible preparations for implementation at the earliest possible date.

The dental program budget request for fiscal year 1987 is based on an estimated implementation date of January 1, 1987. It is $78.8 million and is found in the Schedule of Increases and Decreases under the heading, "Other Contracts (Increases)" in the budget justification.

QUESTION. Does the Department anticipate any expenditure of funds for dependent dental care in fiscal year 1986? If so, what are the Department's estimates?

OSD ANSWER. To meet the direction of the Authorization Conference Committee to proceed with all dental program preparations up to contract award, the administrative costs for the extensive preparations are being borne by the Office of the Civilian Health and Medical Program of the Uniformed Services (OCHAMPUS). The direct attributable administrative costs are estimated at $250,000 for all of fiscal year 1986. It is anticipated that most of the unestimated administrative costs to establish enrollment, eligibility file and enrollee premium payroll deduction systems will occur primarily in the Military Departments in fiscal year 1987.

QUESTION. What are the Department's estimates for the cost of dependent dental care for fiscal year 1991?

OSD ANSWER. The Department's estimate for fiscal year 1991 is a maximum of $141 million, but it is stressed that the competitive bidding process for the contract almost certainly will result in Government costs less than the upper limits estimated.

HOME HEALTH CARE

QUESTION. The fiscal year 1986 DoD Appropriation Bill report as passed by the House, requested that the Department should submit a plan on the implementation of the Home Health Care pilot test. We have received your implementation plan and have a couple of questions about the test.

How many beneficiaries do you anticipate will take part in this pilot test?

OSD ANSWER. Preliminary estimates indicate that approximately 100 cases a year may qualify. Most of the cases will be infants born with major problems and children stricken with severe conditions. The family must be amenable to and the home suitable for having the patient at home, as part of the assessment beyond any medical determination that home health care may safety substitute for covered inpatient care.

QUESTION. What is the criteria you will use to determine the cost effectiveness of a claim?

OSD ANSWER. Cost effectiveness will be determined in advance of home care being provided. Each case will be quickly assessed individually. This is practical because of the relatively small number of cases anticipated and avoids any danger of retroactive denials of payment for home care. Inpatient care that reaches the chronic care parameters, as well as any provider or beneficiary interest in the benefit as a substitute for payable hospitalization, will be examined for potential home care suitability. When suitable, the attending physician will prescribe the medical and related services required in the home setting to make transfer from the intitution possible. These will include such things as physician and skilled nursing services, home health aides, physical therapy, durable medical equipment, medicines, supplies, etc. In keeping with the requirement in law that the home care be more cost effective than covered inpatient care, the cost of the necessary home care services will be compared to the inpatient costs that the Government would have incurred in the absence of the home care benefit. Care that is then authorized will continue only as long as the cost comparison demonstrates cost effectiveness.

QUESTION. What do you anticipate will be the total cost of this program?

OSD ANSWER. By the law's requirements for the pilot, the cost should be less than the costs the Government would have incurred in the absence of the pilot. Administrative costs and the cumulative savings anticipated will be provided to the Committees as part of the quarterly reports requested.

COORDINATION OF BENEFITS

Question. In fiscal year 1987, the Department again has asked for the authority to seek reimbursement for providing health care to military beneficiaries with private health insurance.

What is the current status of this proposal?

Answer. The coordination of benefits proposal is part of the DoD Legislative Program for the 99th Congress. It has included in the Consolidated Omnibus Budget Reconciliation Act of 1985 (Section 2001 of H.R. 3128) which was recently signed by the President.

Question. What is the total amount of savings the Department claims it can achieve by "coordinating benefits" with private insurance companies?

Answer. The estimate of savings projected for the five year period, FY 87 through FY 91 is shown below:

Fiscal year:	*Million*
1987	$10
1988	90
1989	144
1990	205
1991	276

The savings are sharply limited in the first few years by a provision that makes the coordination of benefits applicable only to health plan contracts that are new or amended after the effective date of the Act. It is estimated that only 10% of the health benefit contracts would be new or changed during the first year, leading to a cost estimate showing a savings of only $10 million. By the fifth year, almost all of the health plan contracts would be covered by coordination of benefits, producing an estimated savings of $276 million.

Question. What percentage of the active duty and their dependents have private insurance? How many retirees have private insurance? How many of these active duty, dependents and retirees use military facilities?

Answer. Information on private insurance and use of military facilities is drawn from the Department of Defense 1984 Health Care Survey. The survey found that 10% of the active duty families and 63% of retirees carry private health insurance. This group of privately insured beneficiaries accounts for approximately 17% of the outpatient visits and 10% of the inpatient workload at military treatment facilities.

Question. Private insurance companies are opposed to the "coordination of benefits." A major argument used by the private insurers in that the length-of-stay in DoD medical facilities is longer than the length-of-stay for comparable illnesses in civilian hospitals.

What is the Department doing to reduce the length-of-stay in DoD medical facilities?

Answer. The Department has instituted automated reporting systems to track patient length-of-stay data and compare that information against a norm for that diagnosis. Within the Automated Quality of Care Evaluation Support System (AQCESS), this data is shown by health care provider. Ready availability of length-of-stay actuals and the norms enables the military treatment facility to monitor cases for appropriate stay lengths and examine exceptions within their quality assurance or utilization review programs.

Question. What considerations or actions has DoD taken to adopt the same coding format that civilian hospitals use or to develop diagnostic related groups that can make length-of-stay comparisons easier?

Answer. On January 1, 1986, medical records coding at all DoD medical treatment facilities was converted to the International Classification of Diseases, Ninth Revision, Clinical Modification system (ICD-9-CM). This change means that the services are now using the same coding structure for inpatient diagnostic and treatment data as hospitals in the civilian sector, and our cases can be directly arrayed as Diagnostic Related Groups.

QUESTION. Do military hospitals routinely perform utilization reviews which include patient lengths-of-stays? In addition, do military hospitals perform extended stay reviews when a patient has been in the hospital beyond the average length of stay for a specified diagnosis?

OSD ANSWER. Military hospitals review patient lengths-of-stay. This examination is part of the quality assurance process where the facility reviews the appropriateness and level of health care provided. In addition, patient length-of-stay information falls within the scope of utilization reviews. Utilization reviews look at management of resources in patient care.

Army Answer. Army Regulation 40-66 (Medical Record and Quality Assurance Administration) states the requirement for monthly tabulations for hospital staff which reflect length of stay data by broad categories of beneficiaries and clinical services for individual hospitals. These tabulations can be used for utilization review.

Additionally AR 40-62 (Standard Policies, Definitions, and Data Presentations Relating To Fixed Medical Treatment Facilities and Patient Accountability) a tri-service regulation, specifies the comparability of length of stay statistics; i.e. those patients with and without surgery, by size of facility based on average daily patient load, and by single or multiple diagnoses. A tabulation which reflects length of stay data by diagnostic information goes to each Army hospital, monthly.

AR 40-3 (Medical, Dental and Veterinary Care) requires that each hospital maintains a long-term patients' roster listing those active duty military patients with 30 or more continuous days of hospitalization. This roster is monitored by the commander and his staff.

Navy Answer. All Naval hospitals are required to routinely perform utilization reviews which includes patient length of stay and extended stays reviews.

Air Force Answer. Yes, Air Force hospitals perform a random sample of inpatient records on patients still in the hospital for appropriate length of stay and utilization of services. Air Force hospitals review extended hospital length of stays for clinical appropriateness using computer products reflecting acceptable ranges of stay (based on the primary diagnosis). Cases where the length of stay may appear to be excessive must be reviewed by the hospital quality assurance/risk management committee.

Question. If DoD is provided the authority to seek reimbursement for medical care provided to military beneficiaries with private insurance, what basis will be used for payment when the length-of-stay is not equal to that of civilian hospitals?

Answer. When active duty members are excluded from consideration, the length-of-stay in military treatment facilities is comparable to that in civilian institutions. If the Congress approves the coordination of benefits, regulations will be developed to guide implementation. Those regulations will likely provide reconciliation mechanisms to govern those instances where there is question as to the appropriate level of payment.

NAVY HEALTH CLINIC CLOSINGS

Question. Recently, the Naval Medical Command announced plans to close and relocate some clinics in Navy medical facilities and to restrict availabilities in other clinics to dependents and retirees. According to the Navy, the drive behind this decision, is the fact that there are not enough doctors in the Naval Medical Command to provide quality care to the total number of people seeking treatment.

What is the status of the clinic closings?

Navy Answer. No decision has been made regarding the closing or downsizing of any Navy hospital or clinic. A study on this issue directed by the Surgeon General of the Navy done by the Commander, Naval Medical Command is nearing completion. The results and recommendations of this study will be forwarded to the Secretary of the Navy later in the spring of 1986 for final decision on such action.

In another initiative, separate from downsizing, changes in specific services such as obstetrics/gynecology, family practice and surgery are being contemplated system-wide to realign resources.

Question. Why is it that the Navy does not have enough physicians to provide this care? Is the lack of physicians due to budget constraints or recruiting realities?

Navy Answer. Navy physician and other health care professional staffing is based solely on the projected wartime medical needs of the active duty population. It is therefore inadequate to meet the combined needs for this same population in peacetime when added to those of the ever growing number of dependents, retireds and dependents of retireds constituting our beneficiary population. This reality has been recently intensified by several factors including limited resource growth, increasing demands, recruiting realities and the dichotomy between peacetime and wartime roles.

The Navy Medical Department competes with other Navy programs for resources, primarily manpower and budget authorizations. Over the past several years, medical department growth has been limited while the beneficiary population has increased as the Navy prepares to staff a 600 ship fleet. Consequently, resources which may have been adequate in the past to provide care to most eligible beneficiaries are now inadequate for this increased population.

Closely associated with limited resource growth are the increase demands placed on the medical department. These demands are the result of changes in the delivery of health care, changes in the needs of the fleet, and changes in entitlements for service. Staffing an effective medical quality assurance program has recently required that 300 billets be transferred to this function. In the absence of growth, these billets must come from existing programs and services, primarily in direct patient care. In other instances the medical department has implemented new programs in response to changing needs in the fleet, such as the drug screening program and the HTLV-III antibody screening program with little or no increase in resources. Changes have occurred in eligibility for care which have placed further demands on the system. The Department of Defense (DOD) implementation of Public Laws 94-142 and 95-561 requires the military services to provide the related services of a medical nature required in a handicapped student's education program within the DOD Dependents Schools system. These services require a significant number of providers with special skills that have little if any wartime contingency function. These resources must also come from existing assets and must generally be placed overseas.

Recruiting realities are also a factor in the inability to meet the health care needs of all beneficiaries. While physician recruitment has improved through the use of special pay programs for critical specialties, several specialties are still experiencing severe shortfalls of personnel compared to billet authorizations.

A final consideration is the dichotomy between the Navy medical department's peacetime and wartime roles. Services required by the peacetime role tend to be outpatient and dependent oriented, such as pediatrics and family practice. Renewed emphasis on wartime readiness has resulted in a loss of staff availability for patient care as more time must be dedicated to training for maintenance of wartime skills. Additionally, shore based facilities are increasingly required to augment fleet units during deployments and exercises. Hospitals and clinics have been unable to keep constant, much less increase, the amount of care available to non-active duty beneficiaries and still meet these requirements.

QUESTION. What clinics are on the Naval Medical Command's list for closing or availability restrictions? What services will be restricted?

NAVY ANSWER. Eight Naval hospitals have been studied for possible conversion to infirmaries including Cherry Point, NC; Corpus Christi, TX; Lemoore, CA; Millington, TN; Newport, RI; Oak Harbor, WA; Patuxent River, MD; and Philadelphia, PA. As an infirmary, these facilities would provide very limited inpatient services in addition to primary care outpatient services.

TOBACCO SALES IN COMMISSARIES

QUESTION. The Committee recently learned that the Department of Defense will order that tobacco sales will not be subsidized in any way by the military and will be pulled from the Commissary shelves. The Department cites health concerns for this change in policy.

We would like Dr. Mayer and the Service Surgeon General to comment on this new policy.

OSD ANSWER. Secretary Weinberger has decided to direct that an intense anti-smoking campaign be conducted at all levels of all commanders and commanding officers, up to and including the highest levels of each Service and the Department. At the end of a period of time reasonable to measure the effectiveness of our aggressive anti-smoking campaign in decreasing use of tobacco by the troops, Secretary Weinberger will review progress and consider whether it would be appropriate, in addition, to make changes in the present policies or tobacco sales in commissaries and post exchanges. I think the Secretary's decision balances the need to take aggressive action to reduce smoking among our troops with the need to maintain military benefits.

ARMY ANSWER. We have been informed that a Department of Defense Directive 1010.10 "Health Promotion" was signed 11 March 1986. The directive does not contain recommendations regarding availability or price of tobacco products in the commissary or the post exchanges.

NAVY ANSWER. The Surgeon General of the Navy strongly supports all Department of Defense efforts to limit the availability and use of tobacco. This position is based on the harmful health effects of tobacco use.

Air Force Answer. We understand that the Secretary of Defense has decided against withdrawing tobacco from the commissary store inventory.

Question. Do you believe that taking cigarettes out of the Commissaries will reduce the incidence of smoking?

OSD Answer. Studies cited in the recent report to Congress on smoking conclude that cigarette prices affect smoking primarily by reducing the participation rate and that the estimated effect on the number of cigarettes per smoker is statistically insignificant. Price changes seem to deter teenagers and young adults from beginning to smoke. While I believe that raising the price of tobacco products would result in decreased smoking rates, I also believe that our aggressive anti-smoking campaign, will be effective. This campaign is unprecedented in scope. I can think of nothing more effective in discouraging the use of cigarettes than having our commanders at every level carry Secretary Weinberger's anti-smoking message.

Question. Won't this move be seen as another lost benefit to the Services?

OSD Answer. The report analyzed the economic impacts associated with an increase in tobacco prices sold in the military resale systems or other action designed to reduce tobacco consumption within the military. The report concluded that discontinuing the sale of tobacco in military commissaries and selling tobacco in exchanges and ship's stores at present prices presented a lesser effect on military benefits than some of the other options analyzed. The Secretary has decided not to take this approach but rather to initiate an aggressive anti-smoking campaign. There will be no benefit loss with this approach.

Question. Are there any cost estimates for the medical treatment of persons who suffer from the alleged side effects of cigarette consumption?

OSD Answer. Both the literature and the data on mortality and morbidity reveal that smoking is known to cause significant illness, disease, and death affecting both the military member and the military health care system. The report on smoking and health in the military prepared for the Congress provides calculations of the costs of smoking to the military health care system. The estimated costs for these smoking-related diagnoses in military medical treatment facilities amounted to 4.8 percent ($158.6 million out of $3,303 million) in FY 1984. Applying the same percentage to the total government cost under CHAMPUS of $1,068 million in FY 1984, an additional CHAMPUS cost for smoking related diagnoses of $51.3 million is estimated for FY 1984. The final total estimate for smoking related costs to the Military Health Care System in FY 1984 is thus $209.9 million.

CONVICTION OF COMMANDER BILLIG

Question. On February 26, 1986, Commander Donal Billig was found guilty of two counts of involuntary manslaughter, one count of negligent homicide and was acquitted on two counts of involuntary manslaughter. These verdicts culminate a year of investigation and 8 weeks of trial proceedings.

Many have said that not only was Commander Billig on trial, the whole military health care system was on trial. Do you agree with this assessment?

OSD ANSWER. One always has to be careful about generalizations condemning a whole based on the actions of an individual. If a physician in Indianapolis were found guilty of malpractice, would anyone conclude that the practice of medicine was bad in the state of Indiana? It would be unfair to condemn an entire group of health care providers who have devoted their lives to providing care to our Armed Forces in making such generalizations. Military medicine contributes a great deal to all that is good in American medicine. Military physicians contribute significantly to the medical literature, often become faculty members at medical schools after military careers, serve on editorial boards for medical journals and on national committees, are invited speakers at national meetings, and are recognized leaders in their field in many ways. A bad system does not nurture such accomplishments. Therefore, I believe that Dr. Billig, but not the whole of military medicine, was on trial.

QUESTION. How does this trial and subsequent verdict reflect the status of military health care?

OSD ANSWER. It demonstrates that we have a system that recognizes and deals with physicians who fail to meet the standards of the profession. I would worry much more about a system that never detects poor quality in any setting as a means of striving for excellence.

QUESTION. Does the recruiting of physicians present such a bleak outlook that the Services are willing to recruit physicians with problems like Billig?

OSD ANSWER. Some background is necessary on the recruiting of physicians in the 1970's and early 1980's to answer that question. In the past 15 years we have gone through three eras of physician acquisition.

In the days of the doctor draft, the Berry Plan permitted young physicians to defer active duty obligation until completing specialty training. This has two marked advantages for the Services. First, the Services could plan their long term needs and defer enough physicians, by specialty, to meet those needs. Secondly, it assured the services a steady turnover of physicians fresh out of the top training programs with the latest knowledge and techniques.

Two unplanned events reversed this situation. There was a dramatic decrease in the pay back obligation for specialty training subsidized by the Services to make them competitive with civilian programs for top applicants. This was necessitated, in turn, by the civilian programs becoming more competitive in pay, and the unpopularity of the military during the Viet Nam conflict. Secondly, the doctors' draft was abolished, and with it went the Berry Plan. This ushered in the doctor recruitment phase. The Services underwent a learning process during this time. Proven recruiting techniques for other fields did not necessarily apply in medicine, partly because the credentials system in medicine in general lacked verification and the recruiters made some invalid assumptions. It was also assumed that the malpractice crisis would make military medicine more attractive. This was only partly true. It made it more attractive for nonsurgical specialties where military pay was more competitive, but not for surgical specialties where they could make four to five times the military salary in civilian practice. Also doctors left civilian practices for many reasons, some less than noble.

Fortunately, the recruiting phase was just a temporizing measure. The Health Professions Scholarship Program (HPSP) was already in effect, but had a long lead time before bearing fruit. This would have the advantages of the Berry Plan in providing a steady flow of physicians directly out of training with the latest knowledge and techniques, and controlling the input of specialties based upon projected needs. It would not have the two major disadvantages of the Berry Plan, the transient nature of the two year obligation and the negative attitude of the drafted physicians. This program is now having a positive impact on staffing. Indeed, 70 percent of our physicians in 1985 were drawn from the Health Professions Scholarship Program and 7 percent from the Uniformed Services University of the Health Sciences. We believe that we are once again able to attract health care providers of the highest quality.

Question. During the trial there was testimony from those who worked with Billig, that when they expressed their concerns about his ability to perform competent surgery, they were reprimanded. Why did this happen? Is the mutual protection society among doctors so great, that a man like Billig can operate for years without being stopped?

Answer. The first of these two questions asked why physicians junior to Dr. Billig were reprimanded when expressing concerns about his ability. Reprimanded is not the correct term. The investigation suggests that their concerns were not acted upon in a timely fashion by those in authority, but it also suggests that they did not pursue their concerns, and/or were not always as forthright as they could have been when questioned about their concerns during hearings about Dr. Billig's abilities. Intimidation would be a better word than reprimand. This is the same scenario that could, but should not, come into play in the hierarchy of any department of surgery, whether military or civilian.

The fact that the credentials process did not work in the Billig case was partly due to individual faults subverting the system rather than a poor system. This is not to suggest that the system had reached full maturity at that point, but it should have worked better than it did. There were two phases that should have prevented Dr. Billig's problems. The initial credentials screening should have prevented his recruitment. There was an active effort on the part of the recruiters to overcome this safeguard. The second phase was the failure of direct superiors to investigate and act on adverse information about Dr. Billig's practice. This latter may have been procrastination in dealing with an unpleasant subject, or an unwillingness to accept that a colleague was inadequate. Often the concerns about a physician are not documented well and are presented in a anecdotal fashion that does not lend itself to prompting dramatic action. This procrastination is enhanced by the reluctance of civilian agencies to provide information when it is requested.

The last question suggests that there is an element of "mutual protection society among doctors," and that this permits doctors like Billig to continue to practice. This is an oversimplification of an exceedingly complex issue. There has been a lack of a systematic approach to evaluating quality of care and difficulties in finding the methodology that will permit objective assessment of the very subjective art and science of medical practice. The tools and manpower resources to implement such programs are just beginning to appear in their earliest form. Databases for collecting and compiling data on indicators of quality of care are beginning to appear, but these introduce a whole new series of problems relating to data management and computer systems that are foreign to medicine. At present these data are being collected and analyzed. These databases and explicit analysis of quality of care issues will allow systematic and equitable review of physician performance. As this is accomplished, the yesteryear practices of subjective judgments, avoidance of issues and "protection" will fade away.

QUALITY ASSURANCE PROGRAMS

Question. Recently, both the DoD Inspector General and the Service audit agencies have reported many weaknesses in the military hospitals' quality assurance programs, including the failure to identify incidents of poor care and the failure to adequately investigate and act on such incidents. Many recommendations were made and within the last year, each Service has issued instructions requiring more emphasis on hospital quality assurance programs. In addition, DoD has announced a $4.6 million contract to the Commission on Hospital Activities, for civilian position peer review of the quality of medical and surgical care provided in the military hospitals.

What changes have been made by health affairs and the military services to address problems in these recent audits or to otherwise improve quality assurance programs?

OSD Answer. Problems identified in DoD audits have been addressed in recent Directives. These include the Directive on Credentialing of DoD Health Care Providers, the Off-Duty Employment Directive, and the Clinical Investigation Directive which were signed in 1985. With respect to emergency care, a Directive on Emergency Medical Services is in the first draft stage. DoD and the Services are actively working on a quality assurance program for pathologists. There is an on-going DoD Tri-Service obstetric pilot study for a speciality specific occurrence screen. These changes have resulted from audits and ongoing quality assurance activities which continue to identify problems and indicate pathways to improve our delivery of health care. In addition, we have initiated a program for external civilian peer review of our medical care which will complement our current quality assurance program.

Army Answer. The many changes instituted in the Army's quality assurance program include: publication of a revised quality assurance regulation incorporating more stringent credentialing and risk management policies, procedures and reporting requirements; development of standardized clinical privilege forms for 21 medical specialities; publication of provider profiles to document individual health care providers clinical activities; incorporation of licensure requirements for physicians, dentists, nurses, and clinical psychologists; creation of additional positions in direct support of quality assurance programs; and implementation of an automated quality assurance support system in each Army hospital.

NAVY ANSWER. Internal Navy inspections and audits have identified weak training programs, inadequate numbers of quality assurance (QA) dedicated personnel, and lack of physician support as deficiencies. Weak training programs, which have lacked effectiveness, need to be strengthened. This requirement was addressed at the Surgeon General's Key Commanders' Conference in July 1985. The Commander, Naval Medical Command (COMNAVMEDCOM) has implemented a formal training program targeted at all echelons of hospital and clinic staffs. Secondly, dedicated billets for QA have been identified by COMNAVMEDCOM, and Naval Occupational Billet Classification Codes for QA have been approved as have QA staffing standards. A working group from the offices of the Director of Naval Medicine, the Deputy Chief of Naval Operations for Manpower, Personnel, and Training, and NAVMEDCOM are establishing specific guidelines pertaining to education, work experience, and other identified requisites for the selection of quality assurance directors, managers, and coordinators in the echelon 2 through 4 commands of the Navy Medical Department. Finally, the above two initiatives will be helpful in bringing about the third and most critical element of this process—obtaining the full support and active participation of our medical staffs.

AIR FORCE ANSWER. The Air Force has completely revised its quality assurance programs to address areas requiring added management attention (for example, refined procedures regarding credentialing, peer review, emergency services management, and supervision of non-physician health care providers). Service representatives have been instrumental in developing effective tri-service quality assurance policies and furnishing them to the Department of Defense for consideration and implementation.

QUESTION. What assurances do we have that these changes will "fix" any major problems and improve health care?

OSD ANSWER. The Joint Commission on Accreditation of Hospitals (JCAH) has incorporated the quality assurance concept into its standards and uses these for hospitals accreditation of civilian and military hospitals. This non-profit civilian commission considers peer review and quality assurance a major step to improve health care. The external peer review program will further improve care by documenting signficant trends deserving attention and more importantly will assist in documenting the high standards of care in our system. Based on the JCAH experience and judgments we are, therefore, confident that our vigorous and extensive quality assurance program already has improved and will continue to improve the quality of health care.

ARMY ANSWER. The Army program represents an earnest effort to identify and correct any deficiencies within the health care system. Given adequate resourcing to meet the medical requirements of the large beneficiary population we support, we believe that the quality assurance program that the Army is developing will provide the mechanisms to identify systemic weaknesses in order that corrective action can be taken.

Navy Answer. These changes were implemented to resolve problems repeatedly identified as weaknesses in Navy medicine's quality assurance (QA) programs: weak training programs, lack of dedicated support staff, and lack of physician involvement. Correction of these problems and improving our QA programs should lead to improved health care.

Air Force Answer. The additional quality assurance mechanisms implemeted have strengthened our peer review and quality of care evaluation procedures. Our programs are second to none. These changes do not guaranteed perfection but they do assure that proper controls are in place and approriate oversight is exercised by the commands.

Question. Please describe the key systems that you have in each hospital to assure high quality medical care.

Army Answer. The quality assurance program in Army hospitals includes four components; patient care assessment, credentialing, utilization review, and risk management. Patient care assessment is a review of medical records and other appropriate sources to evaluate the quality of patient care. Credentialing is the evaluation of health care practitioners qualifications for the purpose of granting the appropriate clinical privileges. Utilization review is the ongoing evaluation of the expenditure of health care resources. It concerns the appropriateness of admissions, services provided, and length of stay. Risk management involves the identification of problems or potental risks that must be eliminated or reduced to prevent accident and injury.

Navy Answer. The key systems which Navy medicine uses in each hospital to assure high quality medical care are the standards established by the Joint Commission on Accreditation of Hospitals (JCAH). JCAH standards are the bench mark in civilian and military health care for assessing the quality of care a facility provides. JCAH accreditation can only be obtained through strict adherence to these standards. JCAH surveys document satisfactory compliance with these standards, and currently all Navy hospitals are accredited.

Air Force Answer. Air Force regulations mandate that hospitals implement and adhere to quality assurance plans that: Improve the quality of health care delivery and enhance practioner performance; reduce risk-creating incidents and adverse effects to patients; improve provider-patient communication; enhance coordination among providers and services; sensitize medical personnel on quality assurance requirements; establish a responsive automated system to facilitate effective monitoring of program efforts and provide quality of care indicators; require adequate supervision of non-physician providers; improve the practitioner selection process; improve provider training; assure performance-based credentialing to enable prompt identification of impaired providers; and ensure that quality assurance concerns are promptly surfaced and resolved.

Question. Do we have sufficient resources in place to have adequate hospital quality assurance programs? How many quality assurance positions currently exist? How many are filled? Please provide this data by Service.

Army Answer. The state of the art in quality assurance is constantly evolving. While current resourcing is adequate to support the program in its present state of development, we anticipate that additional requirements will be added in the future. There are currently 113 quality assurance positions in Army hospitals. Of these, 102 are presently filled.

Navy Answer. No. The Naval Medical Command has recently established staffing standards for Navy medicine. These standards call for 285 military billets/civilian positions as a minimum full-time requirement for quality assurance programs. Currently 172 military billets/civilian positions are dedicated full time to quality assurance. The Commander, Naval Medical Command has directed the remaining 113 military billets/civilian positions to be established by 15 April 1986. Of these, 68 civilian positions were budgeted for in fiscal year 1986 but are not yet filled. This leaves 45 military billets/civilian positions to be compensated for by headquarters and treatment facilities.

Air Force Answer. The existing resources in place are effectively managing the hospital quality assurance programs. The Air Force has a total of 145 quality assurance positions in 82 Air Force hospitals. Eighty-two of these positions are for quality assurance coordinators and 63 positions are for data entry specialists who operate automated quality assurance support systems. All of the Air Force positions are currently filled with either a military or civilian incumbent.

Question. What is the funding that each Service is requesting in fiscal year 1987 that will help improve quality assurance?

Army Answer. Nearly all funding designed to improve staffing, equipment and facilities serves to improve the overall quality assurance program. However, funding requests specifically identified to support the administration of the Army hospitals' quality assurance programs total $2,938,000.

Navy Answer. The Commander, Naval Medical Command's budget for quality assurance for fiscal year 1987 is $3,132,000.

Air Force Answer. The Surgeon General's Quality Assurance Division requested $1.2 million in fiscal year 1987 to fund 44 additional quality assurance positions for stand-alone clinics. These authorizations were not funded due to Air Force resource constraints.

Question. How many military hospitals currently have full time quality assurance coordinator positions? How many of these are currently filed? What are the qualifications for these coordinators?

Army Answer. We have 50 full time quality assurance coordinator positions in Army hospitals. Of these, 46 are currently filled by full time civilian or military personnel. Qualifications for these positions include a basic knowledge of hospital organization and functions, military health care systems, accreditation standards, and quality assurance systems. The Quality Assurance coordinator must also possess the ability to review and analyze clinical data and present that analysis to the medical staff. A basic knowledge of the use of automated systems in the collection, organization, and distribution of clinical and administrative data related to quality assurance, risk management, and utilization review is also required.

Navy Answer. All Navy hospitals have full time quality assurance (QA) coordinator positions. Currently most (approximately 90%) are filled. The Commander, Naval Medical Command has directed that all positions be filled by 15 April 1986.

The current qualifications for quality assurance coordinators are:

(a) Should be a medical department officer, however new Department of Defense guidelines have been promulgated which define qualifications for civilian QA coordinators. Naval medicine is in compliance.

(b) Should not be a new staff member (experts in QA recommend assigning the function to an established staff member who knows personnel and the facility).

(c) Should have the respect of both the medical and professional staffs.

(d) Should possess teaching ability and communication skills.

(e) Should understand management objectives and be able to implement system approaches.

(f) Should possess managerial and clinical expertise to give credibility to the command QA program.

PERSONAL OBJECTIVES

(a) Become and remain knowledgeable in the current state of the art in the field of quality assurance.

(b) Become knowledgeable concerning all the quality assurance activities currently taking place in the facility.

(c) Provide the staff with appropriate assistance and support in matters concerning quality assurance activities.

Air Force Answer. The Air Force has 82 hospitals; all Air Force hospitals have their full-time quality assurance coordinator positions filled by either a military or civilian employee. Qualifications for quality assurance coordinators require that they have appropriate experience and training in accordance with Department of Defense standard position description for medical quality assurance coordinators which was published 20 December 1985. This Department of Defense guidance was disseminated to all medical treatment facilities on 31 January 1986.

Question. How many hospitals have up-to-date quality assurance plans (issued or revised after the Services new quality assurances instructions were issued)? Are these plans approved above the hospitals level?

Army Answer. All Army hospitals are required to have an up-to-date quality assurance plan. These plans are all subject to review above the hospital level. The specific review requirements vary between medical commands, ranging from a 100 percent annual review to a 30 percent annual review by the headquarters medical command quality assurance staff. In addition, the plans are routinely reviewed by medical command and regional medical center consultants, by the Inspector General in the course of hospital inspections, and by the surveyors from the Joint Commission on Accreditation of Hospitals.

Navy Answer. All Naval hospitals have up-to-date quality assurance plans which are revised, as required, on a yearly basis.

There exists a written requirement for these plans to be reviewed routinely during all on-site monitoring of hospital quality assurance programs by personnel not under the jurisdiction of the hospital commander.

In addition, all hospitals are accredited by the Joint Commission on Accreditation of Hospitals and an up-to-date quality assurance plan is an accreditation requirement.

Air Force Answer. The Air Force's 82 hospitals all have current quality assurance plans patterned after the quality assurance guidance issued by the Air Force Surgeon General. These plans are approved by the Major Command Surgeons during their staff assistance visits to base level hospitals. Air Force Inspector General evaluators and surveyors from Joint Commission on Accreditation of Hospitals also check these plans for compliance with national quality assurance standards.

Question. What on-site monitoring of hospital quality assurance programs is done by personnel who are not under the jurisdiction of the hosptial commander?

Army Answer. The Medical Commands' quality assurance staffs visit 30 to 100 percent of their assigned hospitals each year. The Inspector General inspects the hospitals approximately every 18 months, medical command and regional medical center consultants conduct periodic assistance visits, and the Joint Commission on Accreditation of Hospitals conducts on-site visits every one to three years.

Navy Answer. On-site monitoring of hospital quality assurance programs done by personnel who are not under the jurisdiction of the hospital commander is as follows:

(a) Surveys by the Joint Commission on the Accreditation of Hospitals at medical treatment facilities.

(b) Naval Audit Service reports.

(c) General Accounting Office aduits.

(d) Navy Inspector General's inspections.

(e) Planned external civilian peer review of Naval health care start up April 1986.

(f) Scheduled on-site technical quality assurance assist visits by Naval Medical Command.

(g) Scheduled semi-annual on-site technical quality assurance assist visits by geographic commands.

Air Force Answer. On-site monitoring of hospital quality assurance programs is done by evaluators during Major Command Surgeon Staff assistance visits, Air Force Inspector General health services management inspections, Joint Commission on Accreditation of Hospitals surveys, and Surgeon General military/civilian consultant visits to Air Force hospitals. None of these personnel are under the jurisdiction of the hospital commander.

EMERGENCY ROOM MEDICAL CARE

Question. The emergency room is one of the areas most subject to malpractice suits in both military and civilian hospitals. During the past few years, GAO, the DoD Inspector General and the Service audit agencies have all found that military hospitals were using physicians not trained in general medicine or emergency care to staff emergency rooms.

Why do the Services continue to use physicians who have no specific emergency medical training or are not credentialed in a broad scope care medical field, such as general surgery, to staff emergency rooms?

ARMY ANSWER. Due to endstrength shortages prior to 1985–86, physicians were used on rosters who had not worked in Emergency Rooms (ERs) or in primary care for several years. The majority of ERs are no longer staffed by physicians on rotating rosters, and in those situations where rosters are used, qualified family physicians and other primary care physicians are utilized in most cases.

NAVY ANSWER. Navy medicine continues to utilize physicians who are not Emergency Medicine Specialists to staff emergency rooms due to resource constraints.

Navy medicine meets the staffing standards for Emergency Medical Services established by the Joint Commission on Accreditation of Hospitals (JCAH). All physicians who independently staff emergency rooms are granted defined privileges based on training, education and demonstrated current clinical competence in this area.

Two of Navy medicine's thirty-four emergency rooms are designated JCAH Level I. Fourteen emergency rooms are designated Level II. The remainig eighteen are Level III.

All Naval hospitals with a Level I or Level II emergency room must be staffed with physicians certified in advanced cardiac life support (ACLS) and trained in advance trauma life support (ATLS). Although all Level II emergency rooms do not have emergency medicine specialists, they are staffed with physicians experienced in providing emergency medicine and who have ACLS and ATLS training.

Physicians who staff Level III emergency rooms are ACLS certified and granted privileges as noted above.

AIR FORCE ANSWER. Air Force physicians receive emergency services training before being assigned to emergency room duties. They also receive advanced life support training and are appropriately credentialed for emergency services duties. Data from the Joint Commission on Accreditation of Hospitals indicate that 35% of the 5200 accreditated hospitals in America are less than 100 beds (similar in size to most small Air Force community hospitals). Seventy percent of these small civilian hospitals staff their emergency services by rotation of the medical staff, a procedure identical to the military's system of Medical Officer of the Day. However, it is the intention of the Air Force Medical Service not to just meet, but to exceed the civilian standard. Accordingly, we have embarked on a 3 year program to ensure that all our hospital emergency services are staffed by full-time physicians (that is, physicians whose only job is to run the emergency room). We are developing a training program for these physicians and expect to have it operational in fiscal year 1987.

QUESTION. What steps have been taken to increase physician's emergency care training. How many (number and percent) of physicians have had advanced trauma life support (ATLS) or advanced cardiac life support (ACLS) training or equivalent. How many without such training had unsupervised emergency room (ER) duty in the last 12 months. (Include residents and interns separately.)

Army Answer. Emergency rooms are categorized into the Joint Commission on Hospital Accreditation (JCAH) levels of care. All JCAH level I ERs have emergency medicine trained or certified physicians on duty in the ER area. All JCAH level II ERs have at least one emergency medicine trained physician. Levels III and IV have at least one physician with ER experience. Of the 5,317 physicians in the Army Medical Department, approximately 4,400 have current ACLS, ATLS, or both; and the majority of the other 917 physicians need to update their initial training. All Army-trained and many other physicians have received ATLS training at the Combat Casualty Care course since 1981, and all residents and interns now receive ACLS training before they enter their training programs. Residents and interns are now supervised in the ER. In U.S. Army Health Services Command's ERs, there are 353 ACLS-trained physicians, of whom 201 have ATLS training. The few remaining are in training or have equivalency. Additionally, there are 151 ACLS-trained nurses, of which 25 also have ATLS training.

Navy Answer. Emergency medicine, as a separate recognized specialty, has been in existence for only six years. During this time the Navy has developed an accredited residency training program for training physicians in emergency medicine. The program is located at Naval Hospital, San Diego and graduates four emergency medicine physicians each year.

In addition to the residency program, several hospitals have training programs designed to prepare physicians who will be assigned to the emergency room. Examples are: Naval Hospital, Camp Pendleton; Naval Hospital, Jacksonville; Naval Hospital, Bethesda; Naval Hospital, Oakland; Naval Hospital, Bremerton.

Each of these facilities has either a Level I or Level II emergency room classification and has permanently assigned staffs. The Medical Corps staff assigned to the emergency room in each of these Naval hospitals is composed of either trained emergency medicine physicians or physicians experienced in rendering emergency care. Likewise, these physicians are certified in advanced cardiac life support (ACLS) and trained or certified in advanced trauma life support (ATLS).

All physicians providing care independently in Level III emergency rooms have current ACLS certification. Specific numbers holding ATLS certification in Level III emergency rooms is not known.

Interns and residents are not credentialed to provide health care services independently—all must be supervised.

Air Force Answer. We have embarked on a 3 year program to ensure that all Air Force hospitals' emergency services are staffed by full-time physicians. The training program for these physicians is currently being developed and will start in fiscal year 1987. Although specific percentages of physicians who have been trained in advanced trauma of cardiac life support or equivalent are not available, a 15 November 1984 change to Air Force Regulation 168–13, Quality Assurance in the Air Force Medical Service, directed that all Air Force physicians must complete advanced life support training (advanced trauma or cardiac life support or equivalent) within 2 years. This time frame is consistent with a forthcoming Department of Defense directive on emergency services. Data on the number of physicians who have not yet completed this training but have performed emergency services duty is unavailable. Residents and interns do not perform unsupervised in emergency services.

QUESTION. What steps have been taken to improve emergency room protocols?

OSD ANSWER. A proposed Directive on Emergency Medical Services is in the final draft stage and will establish policy, prescribe procedures, and assign responsibilities regarding the administration and management of emergency medical services within all DoD medical treatment facilities. It prescribes that the level of emergency medical services (EMS) provided by medical treatment facilities be classified in accordance with standards of the Joint Commission on Accreditation of Hospitals (JCAH). Included in the proposed EMS Directive is the requirement that each Military Medical Department have written EMS diagnostic and treatment protocols. The Services may use nationally standardized protocols or equivalent standardized protocols for patient care emergencies. The protocols would provide minimum guidelines for diagnosis and treatment of patient care emergencies. The standardized protocols are not intended to serve as rigid "cookbooks" for EMS health care providers, but rather as guidelines for individuals to avoid errors of oversight. The protocols may be supplemented locally but must be concise and convey the essential diagnostic and therapeutic measures that can be rendered quickly by EMS health care providers whose primary expertise may not be emergency medicine.

In addition, the proposed Directive would require that the health care providers, including physicians, be credentialed in emergency room services based on specific education, training, and experience requirements. The clinical privileges that a health care provider may have in the emergency room can be defined as those patient care activities that a provider may perform independently and those requiring consultation and supervision. Credentialed physicians working in a JCAH Level I (highest level) EMS will be required to be trained and maintain current certification in Advanced Trauma Life Support and Advanced Cardiac Life Support. Physicians working in a JCAH Level II and III EMS will be required to be trained and maintain current certification in Advanced Cardiac Life Support. All other EMS personnel will be required to be trained and maintain current certification in Basic Life Support. ACLS training and certification is recommended for all EMS health care providers.

ARMY ANSWER. In accordance with Joint Commission for Accreditation of Hospitals (JCAH) guidelines, all medical treatment facility ERs presently have written protocols or standard operating procedures for many common emergent conditions seen in the ER. Standardization and expansion of the number of protocols are waiting final recommendation from the Office of the Assistant Secretary of Defense (Health Affairs). It is recognized that these protocols are not intended to serve as rigid "cookbooks" for Department of Defense (DOD) health care providers but rather as guidelines to avoid errors of oversight and to assist in management of cases presented to the ER. Protocols for true emergency cases are inappropriate in the immediate treatment phase but have been developed to assist in teaching non-emergency medicine providers.

Navy Answer. All Navy emergency rooms are in compliance with the Joint Commission on Accreditation of Hospitals requirements for 28 separate policy and procedure protocols.

Navy medicine is participating in developing a Department of Defense directive on Emergency Medical Services (EMS). Implementation of this directive requires Navy medicine to develop or utilize protocol guidelines that reflect either nationally standardized protocols or their equivalent. Protocols shall be concise and convey the essential diagnostic and theraputic measures that can be rendered quickly by EMS health care providers whose primary expertise may not be emergency medicine.

Air Force Answer. Air Force Regulation 168-13, Quality Assurance in the Air Force Medical Service, Chapter 6, Emergency Services, currently stipulates that all medical treatment facilities have protocols/operating instructions for those areas required by the Joint Commission on Accreditation of Hospitals Emergency Services Standards. Also required are protocols for a variety of other events such as aircraft accidents, urgent aeromedical evacuation, urgent patient transfer and disaster response. This is a checklist item for Air Force Health Services Management Inspection teams. In addition, in support of the soon to be released Department of Defense directive on emergency services, we will be developing protocols for selected significant disease/conditions. These will serve as guidelines and memory joggers for the emergency services physicians.

Question. How many hospital emergency rooms (ERs) have been reclassified to lower levels of care in the last two years to bring them into conformance with Joint Commission on Accreditation of Hospitals (JCAH) classification standards which are based on staffing. What are the benefits and costs of improving staffing to allow the higher level of care. Are there plans to raise the level of care in any hospital emergency rooms.

Army Answer. There are 41 ERs within U.S. Army Health Services Command (HSC), and in 1983, our facilities reported that 33 were level I or II and the balance level III, and 3 level IV. Letters have been sent to all level I and II to reassess the levels for correctness and report back by April 15, 1986. HSC does not call a level IV an emergency room, but rather an after-hour clinic. To increase a level II ER to level I requires tremendous additional resources throughout the whole hospital. For example, some of our medical centers would need cardithoracic surgical capability. Within the curent resource environment, it is not cost effective to do this. To increase a level III ER to level II would require increasing the experience level of the ER staff which provides more skillfully delivered care for our patients. We have been doing this and will continue to do so as we increase the number of active duty ER physicians and ER contract services.

Navy Answer. Two Naval Hospitals, Oakland and Portsmouth, had their emergency rooms (ERs) reclassified from Level I to Level II because neither facility had a cardiopulmonary bypass pump oxygenator present in the operating suite. Staffing was not the cause of the change in classification. Naval Hospital, Groton was reclassified Level III in July 1985 because the staff required was not available to meet the criteria for Level II.

A recently completed study of emergency medicine services recommended that emergency rooms in Naval hospitals located in overseas areas be upgraded to Level II. Such action will assure military beneficiaries of adequate emergency medical care in Europe and the Pacific. Reclassifying these ERs, however, will require taking physicians from Naval hospitals in the Continental United States, which will result in limiting non-active duty beneficiaries' access to the direct care system.

A decision regarding the upgrading of emergency rooms from Level III to Level II is under consideration.

Air Force Answer. We are unaware of any Air Force hospital that has downgraded its Joint Commission on Accreditation of Hospitals emergency service classification because of staffing constraints. We have started a 3 year program to staff all our hospital emergency services with full-time physicians. The training course for these physicians is currently in development and will be implemented in fiscal year 1987. The benefits will be enhanced quality of care as well as improved patient and physician satisfaction as a result of dedicated physician staffing. The costs may be a slight delay in routine appointments as some physicians move from routine primary care into full-time emergency services duty.

Question. What standards for training and licensure exist for ambulance crews and emergency room technicians. How many of those assigned in the last 12 months met those standards. How many ambulance crew members are trained emergency medical technicians (EMTs). What is the average time emergency room technicians or ambulance drivers are assigned to the emergency room?

Army Answer. The U.S. Army Health Services Command (HSC) present minimum standard is completion of a basic EMT course. A recommended change to Army Regulation 40–66 is being processed at Office of The Surgeon General (OTSG) to adopt the "National Registry of Emergency Medical Techicians (NREMT)" as the minimum standard. Once approved by OTSG, the same request will be forwarded to Department of Defense. Of the 503 Department of the Army Civilians (DACs) assigned as EMTs, 429 have at least basic EMT training. The majority of ambulance attendants are DACs, and many have full paramedic training. The majority of untrained attendants are active duty; however, they are presently in training or scheduled for training. One area in which the Army has difficulty is with the Office of Personnel Management who will not allow the requirement for certification for employment or continued employment for civilian EMTs. The resaon for this is a Comptroller General's decision not to allow expenditure of appropriated funds for certification or recertification examinations of DAC EMTs. However, a significant number of DAC EMTs, through pride, have maintained certification, even though it is not a requirement. The majority of EMTs who are DACs stay for 20 plus years, however, the active duty personnel are assigned for one or more years depending on the needs of the Service. Paperwork is presently in the staffing phase at HSC to request skill identifiers and stabilize tours for military EMTs.

NAVY ANSWER. Standards for training and licensure of ambulance crews is based on the Department of Transportation Training Program for the Operations of Emergency Vehicles. There is no central body which licenses or certifies drivers. The Department of Transportation course is the training standard in the Navy. The Naval Medical Command requires that all ambulances be driven by an attendant who has successfully completed this course.

The industry standard for emergency medical techicians (EMTs) is the Department of Transportation National Standard Training Curriculum for Emergency Medical Technicians. The National Registry of Emergency Medicine Technicians is the body which certifies EMTs. As provided in the Naval Medical Command instruction, the Department of Transportation course is the standard. Navy does not require that our attendants be certified by the National Registry; we do require that EMTs pass the National Registry test administered by Navy and the National Registry recognizes the Navy's exam for reciprocity purposes. In effect, they are "certified" by the Navy.

All members of ambulance crews and all EMTs assigned in the last 12 months have successfully completed this training. Each ambulance crew is required to have one trained emergency medical technician.

Precise information on the average time emergency room technicians or ambulance drivers are assigned to the emergency room is not available. It is estimated that their assignment is for a 12 to 18 month period.

AIR FORCE ANSWER. Air Force Regulation 39-1, Airman Classification, requires that all medical technicians assigned to an Air Force medical treatment facility emergency room must have completed an approved emergency medical technician course. Compliance is verified by evaluators during Major Command Surgeon staff assistance visits and Air Force Inspector General Health Services Management Inspections. The average time emergency technicians or ambulance drivers are assigned to emergency room is estimated to range between two to four years per assignment at one duty location. However, assignments of medical technicians to emergency rooms is dependent on a wide range of variables (that is, permanent change of station moves, needs in other parts of the hospital, and separation from the Service).

QUESTION. What changes have taken place or are planned to improve medical care. If planned, what is the target date for completion.

ARMY ANSWER. The Office of the Assistant Secretary of Defense for Health Affairs is now staffing their new directive for administration and management of emergency medical services to bring Department of Defense (DOD) into compliance with current Joint Commission for the Accreditation of Hospitals (JCAH) standards. The U.S. Army Health Services Command (HSC) has defined the JCAH term "Physician Experienced in Emergency Care." This definition has approval of JCAH and the American College of Emergency Physicians (ACEP). This definition will be submitted to DOD for its use. Requests to change Army Regulation 40-66 to identify

National Registry of Emergency Medical Technicians (NREMT) as the basic requirement of training is at the Office of The Surgeon General (OTSG), and final draft will be sent to DOD. The nonpersonal services contract system has had a high priority for emergency rooms with $6.8 million prorated in FY 86. This expenditure virtually eliminated all emergency room (ER) rosters of specialists, and dollars for this are expected to increase in FY 87 and completely eliminate ER rosters. Additionally, HSC has accomplished the following:

Hospital-based ambulance services are being reviewed under the Commercial Activity (CA) program. One result of this CA review will be the elimination of all active duty military Emergency Medical Technicians (EMTs) from the ambulance services. All ambulance services will then be provided by in-house contract ambulance EMTs or Department of the Army Civilians (DACs).

A staff study is being done at HSC to request military occupational specialty skill identifiers and stabilized tours for EMTs.

Physicians with ER experience supervise all HSC ERs, and many are trained or board-certified. Twenty-two medical treatment facilities have partial or full assignment of emergency medicine-trained physicians.

All interns and residents, since 1981, receive advanced cardiac life support before starting internship or residency programs.

HSC has written a draft of an emergency medicine pamphlet of ER operations which is being staffed, and it is scheduled for publication by the last quarter of FY 86.

NAVY ANSWER. The Navy Surgeon General at the Key Commander's Conference in July 1985 directed the Commander, Naval Medical Command, to establish staffing standards for emergency medical services in all Naval hospitals. This task was completed in January 1986 utilizing nationally recognized standards endorsed by the American Academy of Emergency Medicine.

All emergency rooms currently meet or exceed the Joint Commission on Accreditation of Hospitals requirements for their designated level of care. Resources and requirements to upgrade Level III emergency rooms to Level II emergency rooms have been identified. Priorities for upgrading have been identified as follows:

(1) Outside Continental United States (OCONUS)—No alternative care exists.

(2) Isolated CONUS—No alternative care exists within a reasonable distance.

(3) Others—Reasonable care is readily available.

A decision regarding the upgrading of emergency rooms from Level III to Level II is under consideration.

AIR FORCE ANSWER. The Air Force is studying the feasibility of assigning additional nurses to emergency rooms to provide increased management and support. The Air Force has directed a 3 year program to ensure that all hospital emergency services are staffed by full-time physicians. A training program is being developed for these physicians and will start in fiscal year 1987. Target date for completion of the time-phased 3 year Air Force emergency services management program is 30 September 1989.

PHYSICIANS CREDENTIALING SYSTEM

QUESTION. The incidents of military malpractice claims and allegations of improper health care have focused a high level of attention on the quality of care provided by the DoD care system. One of the major deficiencies reported by both the DoD Inspector General and the military services audit agencies is the credentialing of physicians. Audits report that credential committees often granted physicians privileges without giving adequate attention to their competence, qualifications or past record.

What corrective actions have been taken on the deficiencies and weaknesses of the Department's credentialing of physicians?

OSD ANSWER. A DoD Directive on Credentialing of the Military Health Care Providers was signed in February 1985. This Directive Provides detailed guidelines for granting a health care provider a defined set of clinical privileges. It also creates a physician profile which will be used to document clinical performance for credentialing and reappraisal. A subsequent memorandum I signed in May 1985, included a requirement for applicants to report all aspects of their medical practice including liability clauses, previous deprivileging action and a listing of all state medical licenses held in the past or present.

QUESTION. What process or procedures are in place or plan to be in place to ensure validation of medical education, training, licensure and letters of recommendation to their original sources? Do these procedures and processes include providers who are currently on board or only new hires?

OSD ANSWER. The Credentialing Directive requires validation of qualifying degrees, including diploma, registration or licensure, board certification and Education Commission for Foreign Medical Graduates certificate from the issuing source or appropriate professional clearinghouse. These procedures include active duty health care providers and applicants.

QUESTION. What steps are being taken or planned to ensure that physicians report all states where they ever held licenses, and an explanation for those that were previously, but not currently held?

OSD ANSWER. This information is required in the pre-credentialing process of all physicians and is included in the Credentialing Directive. Each Service has requested a screen on all DoD physicians by the American Medical Association covering all currently held or previously held licenses by a physician with information as to the current status of these licenses.

QUESTION. Are there any plans to match military physician to physicians names on disciplinary listings maintained by the National Federation of State Medical Boards and other licensing/regulatory networks?

OSD ANSWER. Yes, and the process is underway. Each of the Services is having current active duty, civilian, and Reserve physicians screened against databases maintained by the Federation of State Medical Boards and the American Medical Association.

QUESTION. What steps have been taken and are planned to monitor provider performance, morbidity and mortality rates, and ensure that all instances involving unacceptable care are included in physician's credentials files?

OSD ANSWER. Published in 1983, DoD Directive 6025.1, Standards for DoD Health Care Provider Performance, requires an annual review of mortality and complication rates. Occurrences from a generic screen of eighteen quality of care items serve as the operational definition of complications. These rates are used in assessing the provider's clinical performance during periodic review and renewal of patient care privileges at the hospital level. An annual report to the ASD(HA) is intended to facilitate system-wide monitoring.

When the modifications of reporting requirement are fully implemented and incorporated into the Automated Quality of Care Evaluation Support System (AQCESS) by next year's report, the Services will specifically address the types of actions taken against a provider in cases in which peer review attributed a provider with inadequate care contributing to a death or a quality of care occurrence. The types of actions to be reported include documentation in a provider's profile.

QUESTION. What assurances are there that physicians report, in the credentials application process, all malpractice actions and settlements including those where there is not formal record of negotiations or outcome?

OSD ANSWER. A May 1985 addendum to DoD Directive 6025.4, Credentialing of Health Care Providers, addressed this issue. Applications of new physicians seeking DoD employment are to include:

"An explanation of all medical liability claims, settlements, judicial or administrative adjudications or any other resolved or open charges of inappropriate, unethical, unprofessional or substandard medical care; and

A certification to be signed by the physician applicant stating that any false or incomplete information knowingly provided on or with the application may be grounds for not employing or accessing the applicant, or dismissing or releasing the applicant already employed or serving, and may be punishable by fine or imprisonment under U.S. Code Title 18, Section 1001."

Instances of provider-specific claims or malpractice determination are also noted in our review of data from the Federation of State Medical Boards to the extent that a licensing authority reports these events to the Federation of State Medical Boards.

QUESTION. Have all foreign medical school graduates employed by the Federal Services taken and passed the Education Commission Foreign Medical Graduates Examinations? If not, why not? How many foreign medical student graduates are employed by the military services?

OSD ANSWER. All foreign medical school graduates on active duty as a physician have taken and passed the Education Commission for Foreign Medical Graduates examination. This is also a requirement for entry into the Services. The total number of physicians on active duty in 1985 was 13,222. Of this number, 1,050 were Foreign Medical School graduates. Approximately 100 civilian employed foreign medical graduates who are employed overseas have not yet taken the ECFMG exam in large part because until recently it was not a requirement. We have developed an extensive review process covering education, knowledge, skills and English language competency for these individuals.

TESTING FOR COCAINE IN THE AIR FORCE

Question. The Committee understands that the Air Force will soon begin urinalysis testing for cocaine. The current policy tests all samples for marijuana use and retesting 10 percent of the samples for cocaine use.

What factors encouraged the Air Force to begin the wider testing for cocaine use?

Air Force Answer. The Air Force, at its Drug Testing Laboratory, Brooks Air Force Base, Texas, currently tests all samples for marijuana. We also, in our pulse testing program, test ten percent of all samples for a second drug which is rotated among cocaine, opiates, barbiturates, PCP, and amphetamines.

We are planning to raise the testing level of the pulse drug to one hundred per cent in the May–July timeframe. Budget reductions, staffing problems, and reagent availability may, however, impede our reaching that goal. Initially we will be testing for cocaine but later switch among the other drugs. The pulse drug will not be announced, continuing our emphasis on deterrence.

Cocaine testing will be emphasized for several reasons. The 1985 DOD Worldwide survey indicates prevalence of cocaine use in the Air Force, although low, is second only to marijuana on measures of use in both the last 30 days and 12 months. Air Force law enforcement activities indicate an increase in the relative percentage of cocaine related law enforcement incidents. Increases in availability and decreases in price of cocaine in communities near Air Force bases conceivably could lead to increased use by Air Force members. Operational field commanders have also requested expanded testing for cocaine.

We will maintain the ability to test for all DOD certified drugs and continue our practice of testing for a drug upon a commander's substantiated request, even if the drug is not the pulse drug of the month.

Question. What are the estimated costs of increasing the testing? How much is included in fiscal year 1987 for this testing?

Air Force Answer. For the Air Force Drug Testing Laboratory to test 300,000 samples for cocaine over fiscal year 1987, it will cost $670,000. There are no funds in the fiscal year 1987 President's Budget for one hundred per cent cocaine testing.

Question. Will this reduce the number of tests done for marijuana use?

Air Force Answer. No, this will not reduce the number of tests done for marijuana use as we will continue testing all specimens for the presence of marijuana.

U.S. ARMY DRUG AND ALCOHOL TESTING AGENCY (USADATA)

Question. The Committee understands that the Chief of Staff of the Army has decided to eliminate the U.S. Army Drug Alcohol Testing Agency (USADATA) effective on September 30, 1986. The basis for this elimination is to free up military billets and return these billets to the force structure. The responsibilities of USADATA would be picked up by the current staffing.

USADATA has been the central location in the centralized management of the Army's drug and alcohol testing.

1. If the responsibility is shifted to other staff, won't this cause further decentralization of the administration of the Army's alcohol and drug testing?

2. Will this responsibility be shifted to the major commands?

3. Why is the Army abolishing USADATA?

ARMY ANSWER. The correct name for the Field Operating Agency (FOA) in question is the United States Army Drug and Alcohol Technical Activity. The major role of this activity is threefold: program management to ensure that Headquarters, Department of the Army (HQDA) policy is implemented, program support to provide technical assistance needed to ensure operational effectiveness, and HQDA oversight. A part of the mission includes management of the drug testing program. While there was discussion concerning the elimination of USADATA, the final decision was not to eliminate the agency. Instead, DA reduced excess staffing while retaining that level of staffing needed to provide the required centralized management. USADATA will be retained as an Office of the Deputy Chief of Staff for Personnel (ODCSPER) FOA to continue this operations function. Policy decisions in the drug and alcohol arena are the responsibility of the Leader Policy Division, ODCSPER. The section tasked with development of such policy is the Drug and Alcohol Policy Office. This office also has control over the budget formulation process and budget execution reporting.

NAVY DRUG AND ALCOHOL REHABILITATION FACILITY, SAN DIEGO

QUESTION. On January 15, 1986, the Committee received a notification from the Navy that the Navy had established a Naval Alcohol Rehabilitation Center in San Diego. This action also disestablished the Naval Alcohol Rehabilitation Center in San Diego and the Naval Drug Rehabilitation Center in San Diego.

Why is this being done? Won't this action reduce the available drug and alchol abuse treatment available to service members?

NAVY ANSWER. In February 1985, the guidance for the development of the Program Objective Memorandum for fiscal years 1987–1991 (POM-87) directed consolidation of drug and alcohol treatment facilities where warranted and possible. This was a reflection of the progress the Navy had made since 1982 in dramatically reducing the incidence of drug usage among Navy personnel. At the same time, Navy drug treatment policy was tightened so as to offer residential drug rehabilitation only to petty officers with exceptional potential for further useful service and a high probability for successful rehabilitation. The number of beds dedicated for treatment of drug-dependent personnel, therefore, was safely reduced. The Navy's efforts to treat alcohol-dependent personnel continues unabated.

QUESTION. How much was saved by this reorganization in fiscal year 1986 and in 1987? Where have the savings been applied?

NAVY ANSWER. The consolidation resulted in the need for 46 fewer billets at the new facility than at the two former commands. Of these, 25 billets are to be redistributed throughout the drug and alcohol system to reflect increased emphasis on prevention, education, and quality assurance. The remaining 21 billets were eliminated from the program. The monetary savings resulting from the consolidation is estimated to be $471,000 in fiscal year 1986. For fiscal year 1987, it is estimated to be $249,000. As with the personnel savings, these monetary savings are being reapplied into prevention, education, and quality assurance programs.

QUESTION. How many inpatient beds were provided at the Naval Alcohol Rehabilitation Center in San Diego and the Naval Drug Rehabilitation Center in San Diego?

NAVY ANSWER. The Naval Alcohol Rehabilitation Center in San Diego provided 80 inpatient beds. The Navy Drug Rehabilitation Center in San Diego (Miramar) provided 200 beds. The combined facility now provides 250 beds.

QUESTION. Doesn't the reorganization of these two centers into an alcohol rehabilitation center indicate that the Navy is less concerned about drug abuse than it is about alcohol abuse?

NAVY ANSWER. The Navy remains committed to an aggressive program to reduce the harmful effects of both drug and alcohol abuse. Our policy of Zero Tolerance of drug abuse has resulted in a dramatic reduction in drug usage rates since 1982. The Navy continues to provide residential drug rehabilitation to those petty officers with exceptional potential for further useful service. The consolidation came about as a means of conserving resources, not because of any lack of concern about drug abuse. Any Navy member involved with drugs continues to receive the screening, education, counseling or rehabilitation appropriate to his or her situation.

STAFFING LEVELS FOR DRUG AND ALCOHOL ABUSE PROGRAMS

QUESTION. What are the staffing levels for drug and alcohol abuse prevention programs for the Army for fiscal years 1986 and 1987? Please provide the staffing authorized and the staffing actually accomplished for each fiscal year

ARMY ANSWER. The following is a worldwide total of staffing levels for the Army Alcohol and Drug Abuse Prevention and Control Program (ADAPCP) for the years in question. The figures are from a special analysis done as a part of the Command Operating Budget (COB) development process. Each Major Army Command (MACOM) submitted a report detailing budget data and giving military and civilian man-years projected to be expended.

1986: 1885 (including 534 military)
1987: 1884 (including 519 military)

This staff provides the full range of ADAPCP services to all eligible personnel; including civilian employees, family members, and retirees.

These figures do not include over 200 positions for which a recognized need has been established through the manpower survey process, but which are left vacant due to a lack of authorized spaces. Current manpower ceilings preclude filling these spaces, which remain vacant at a time when the overall mission of the ADAPCP has been expanded and enrollments are on the increase.

NAVY ANSWER. The following manpower allocations (workyears) for Navy drug and alcohol programs are provided below. Staffing actually accomplished are tracked as end strength and are not available until the end of the requested fiscal year.

	Drug MIL/CIV/TOT	Alcohol MIL/CIV/TOT
Fiscal year 1986:		
CHNAVPERS	161/35/196	162/64/226
COMNAVMEDCOM	26/352/378	174/79/253
CNET	217/8/225	131/12/143
CINCLANTFLT	115/5/120	60/3/63
CINCPACFLT	88/14/102	45/32/77
CINCUSNAVEUR	10/5/15	17/8/25
CNO	5/3/8	4/3/7
VAVAIR	1/0/1	1/0/1
NAVSEA	1/1/2	-/-/-
NAVFAC	4/2/6	2/2/4
Total	1053	799
Fiscal year 1987:		
CHNAVPERS	162/39/201	170/73/243
COMNAVMEDCOM	26/352/378	174/79/253
CNET	217/8/225	131/12/143
CINCLANTFLT	115/5/120	60/4/64
CINCPACFLT	88/14/102	45/32/77
CINCUSNAVEUR	10/5/15	17/8/25
CNO	5/3/8	4/3/7
NAVAIR	1/0/1	1/0/1
NAVSEA	1/1/2	-/-/-
NAVFAC		
Total	1058	817

AIR FORCE ANSWER.

	FY 86	FY 87
Staffing levels authorized:		
Personnel Authorized at Medical Treatment Facilities	248	262
Personnel Authorized at Drug Testing Laboratory	99	99
Total Personnel Authorized	347	361

Staffing levels assigned:

Medical Treatment Facilities. There are personnel with the same specialty codes assigned to MTFs, some of whom do perform drug and alcohol abuse prevention duties while others do not. Therefore, data does not discriminate between personnel who were or were not performing drug and alcohol abuse prevention duties. Staffing in these career fields has been close to 100% of authorizations since before FY 81. Therefore, it is a valid assumption that staffing for drug and alcohol abuse prevention programs vary only a small amount from authorizations.

Drug Testing Laboratory. There were 75 personnel assigned to the drug testing laboratory during FY 85. Actual number to be assigned against the 99 projected authorizations for FY 86 is unknown at this time.

STAFFING THE HOSPITAL SHIPS

QUESTION. Adm. Seaton, the first hospital ship (TAH-19) is scheduled to come on line in October of this year. The second hospital ship (TAH-20) is coming on line August 1987.

Just this week, the Navy stated that there is currently a shortage of medical personnel. This precludes the Navy from providing quality care to their current population, which in turn will cause the closing of some medical facilities.

Considering this shortage of Navy physicians and other medical personnel, how does the Navy plan to staff these hospital ships?

Navy Answer. The T-AH hospital ships are to be maintined in a readiness posture of reduced operational status 5 (ROS-5). That means the ships have 5 days to be fully operational, mission capable and underway to the theater of operations. Each hospital ship will be manned during ROS by a cadre crew. The ROS cadre crews are composed of 56 enlisted and 10 officer billets for both ships. There are no Medical Corps officers assigned to the ROS cadre crews.

In case of a major contingency operation, the hospital ships will be brought to full operational status. During full operational status the Medical Personnel Unit Augmentation System will be used to staff the hospital ships. Going to full operational status will result in the partial drawdown of the Continental United States (CONUS) medical treatment facilities to provide augmentation personnel for these ships. The TAH augmentation crews consist of 520 officers (including 110 Medical Corps officers) and 1580 enlisted personnel for both ships. TAH-19 (West Coast homeport) will receive staffing from the Northwest and Southwest Geographic Medical Commands. TAS-20 (East Coast homeport) will receive staffing from all other CONUS Geographic Medical Commands.

Question. Are there any special recruiting programs designed to fill the medical manpower needs to these hospital ships?

Navy Answer. To maintain the reduced operational status of these hospital ships, there are no special recruiting programs required to fill the medical manpower needs.

For full operational status of the hospital ships, the critical medical specialty skill shortages have been identified. The medical augmentation assets utilize authorized subspecialty substitution for critical medical specialty skill shortages. Recruiting goals for physicians have been targeted toward undermanned specialties such as general surgery, neurosurgery, and thoracic/cardiovascular surgery. Maximizing the number of positions in Navy residency programs, sponsorship of people in civilian training, and judicious use of active duty deferrals for our scholarship students are other initiatives that have been undertaken which focus on undermanned specialties.

Question. What are the total costs associated with staffing these ships?

Navy Answer. The final year 1987 reduced operational status 5 (ROS-5) and full operating status staffing costs for TAH-19 and TAH-20 are divided into two categories: medical treatment facility (MTF) and ship operations costs.

ROS-5 MTF staffing costs: The two ships will have 10 officers and 56 enlisted making up the ROS-5 MTF cadre crew (5 officers and 28 enlisted for each ship). Depending on the phasing of the delivery of the two ships, the FY 87 full year manning costs of the ROS-5 MTF cadre crew is $1.968 million. $.255 million of Operation and Maintenance, Navy (O&M,N) funds is required in fiscal year 1987 to support the staff for the medical systems and medical material maintenance functions.

ROS-5 ship operations staffing costs: The two ships will have an ROS-5 civilian mariner or contract equivalent crew of 34 (17 for each ship). Of the $9.173 million requested in the fiscal year 1987 budget, $4.964 million is the crew cost for both ships.

Full operating status MTF staffing costs: As stated earlier, if the ships were to be in full operating status for one year, augmented manning for the MTF aboard the ships and for ship operations is required. To augment the MTF manning for both ships, 2100 augmenting medical and medical support personnel (1050 for each ship—260 officers and 790 enlisted) from MTFs in the Continental United States would be required. Full year manning cost for the 2100 augmenting MTF personnel is $68.859 million; total MTF manning cost for both ships is $70.827 million (includes ROS 5 cadre crew plus augmentation crew).

Full operating status ship operations costs for one full year: Requires $33.6 million for two ships of which $19.8 million would be required to support 198 contract mariners (99 for each ship).

The fiscal year 1987 budget contains $16.0 million to operate the hospital ship ($8.1 million) and MTF ($7.9 million) in a peacetime role fiscal year 1987. The following table summarizes from above staffing costs exclusive of other costs for two hospital ships:

[In millions]

	FY 87 ROS–5	Full operating status (Full year)
MTF staffing costs	$1.968	$70.827
Ship operations		
Staffing costs	4.964	19.800

Question. What are the total costs associated with equipping these ships with medical supplies including dated ad disposable medicines and supplies? (Please provide this data for fiscal years 1986, 1987 and 1988.)

Navy Answer. Costs associated with equipping these ships with medical supplies include: Costs for the Authorized Medical Allowance List (AMAL) and Authorized Dental Allowance List (ADAL) for each vessel of $4.4 million. The $4.4 million is contained within each ship's outfitting allowance over fiscal years 1985, 1986 and 1987. The fiscal year 1988 budget is under development.

Question. What are your manning requirements for medical personnel, by specialty, for these hospital ships?

Navy Answer.

HOSPITAL SHIP ROS (CADRE) CREW

Functional title	Rank/Rate	Designator	No.
Active Duty Officers:			
Officer in Charge (9436)	0/5	2300/MSC	1
Medical Operations (0800)	03/04	2300/MSC	1
Nurse Supervisors (0920)	03/04	2900/NC	2

HOSPITAL SHIP ROS (CADRE) CREW—Continued

Functional title	Rank/Rate	Designator	No.
Supply Officer (1918)	03/04	3100/SC	1
Total			5
Total for two ships			10
Active Duty Enlisted:			
Advanced Hospital Corpsmen/Senior Enlisted Advisor (8425)	E–8	HMCS	1
Advanced Hospital Corpsman (8425)	E–7/6	HMC/HM1	1
Dental Repair Technician (8732)	E–7	DTC	1
Bio-Medical Repair Technician (8478)	E–7	HMC	3
Bio-Medical Repair Technician (8478)	E–6	HM1	2
Pharmacy Technician (8482)	E–7	HMC	2
Laboratory Technician (8506)	E–7	HMC	2
X-RAY Technician (8452)	E–6	HM1	1
Operation Room Technician (8432)	E–5	HM2	1
Operating Room Technician (8432)	E–4	HM3	1
General Duty Corpsman (0000)	E–4	HM3	3
General Duty Corpsman (0000)	E–3	HN	4
Messman Mess Manager (4283)	E–8	MSCS	1
Personnel Specialist (0000)	E–6/5	PN1/2	1
Administrative Assistant (0000)	E–6/5	YN1/2	1
Supply Clerk (0000)	E–6/5	SK1/5	1
O_2N_2 Plant (4283)	E–6	MM1	1
O_2N_2 Plant (4283)	E–5	MM2	1
Total			28
Total for two ships			56

HOSPITAL SHIP—FULL OPERATIONAL STATUS CREW [1]

[Hospital ship (TAH): Personnel listing (Medical Personnel) (Active) (12 MAR86)]

	Title, NOBC, NEC, and MDS	Corps and rate	No.
Medical Corps specialty:			
Commander/commanding officer, shore activity	9421	2100/MC	1
Flight surgeon	0045	2100/MC	1
Primary care medical officer	0070	2100/MC	5
Internist	0101	2100/MC	4
Dermatology	0111	2100/MC	1
Psychiatrist	0115	2100/MC	2
Anesthesiologist	0118	2100/MC	9
Radiologist (Diagnostic)	0131	2100/MC	2
Pathologist (Anatomical and clinical)	0154	2100/MC	1
General surgeon	0214	2100/MC	14
Neurosurgeon	0224	2100/MC	2
Obstetrician-gynecologist	0229	2100/MC	1
Ophthalmologist	0234	2100/MC	2
Orthopedic surgeon	0244	2100/MC	6
Otolaryngologist	0249	2100/MC	1
Plastic surgeon	0254	2100/MC	1
Thoracic and cardiovascular surgeon	0264	2100/MC	1
Urologist	0269	2100/MC	1
Total			55
Dental Corps specialty:			
Dental officer general practitioner	0335	2200/DC	2
Comprehensive dentist	0525	2200/DC	1
Oral surgeon	0550	2200/DC	3
Total			6

HOSPITAL SHIP—FULL OPERATIONAL STATUS CREW [1]—Continued

[Hospital ship (TAH): Personnel listing (Medical Personnel) (Active) (12 MAR86)]

	Title, NOBC, NEC, and MDS	Corps and rate	No.
Medical Service Corps specialty:			
General supply officer	1918	2300/MSC	1
Executive officer, shore activity	9436	2300/MSC	1
Administrative officer, Medical service	0800	2300/MSC	3
Patient affairs officer	0808	2300/MSC	3
Food service officer, medical facility	0814	2300/MSC	1
Operations management officer, medical facility	0820	2300/MSC	2
Clinical psychologist	0851	2300/MSC	1
Medical technologist	0866	2300/MSC	3
Physical therapist	0873	2300/MSC	1
Dietitian, therapeutic	0876	2300/MSC	1
Optometrist	0880	2300/MSC	1
Pharmacist	0887	2300/MSC	3
Total			21
Nurse Corps specialty:			
Director of nursing service	0905	2900/NC	1
Nursing service administrator	0915	2900/NC	1
Operating room nurse	0932	2900/NC	25
Outpatient care nurse	0935	2900/NC	2
Charge nurse	0940	2900/NC	15
Staff nurse	0944	2900/NC	116
Anesthetist nurse	0952	2900/NC	12
Total			172
Nonmedical officers:			
Line officer	9274	1100	1
Flight officer	8654	1300	1
JAG officer	0000	2500	1
Supply officer	1045	3100	1
Supply officer	1913	3100	1
Supply officer	1918	3100	1
Supply officer	1933	3100	1
Chaplain	3720	4100/CHC	3
Limited duty officer	2615	6410	1
Total			11
Hospital corps/dental tech:			
General service corpsman	0000	HM	366
Sea air rescue	8294	HM	4
Cardiopulmonary technician	8408	HM	4
Advanced hospital corpsman	8425	HM	8
Preventive medicine technician	8432	HM	3
Ocular technician	8444	HM	2
Advanced ocular technician	8445	HM	1
Otolaryngology technician	8446	HM	1
X-Ray technician basic	8451	HM	10
X-Ray technician advanced	8452	HM	10
Optometry technician	8463	HM	3
Physical therapy technician	8466	HM	5
Medical photography technician	8472	HM	1
Biomedical equipment repair technician basic	8477	HM	5
Biomedical equipment repair technician advanced	8478	HM	6
Pharmacy technician	8482	HM	20
Operating room technician	8483	HM	51
Neuro-psychiatry technician	8485	HM	6
Urology technician	8486	HM	1
Cast room/orthopedic technician	8489	HM	5
Dermatology technician	8495	HM	1

HOSPITAL SHIP—FULL OPERATIONAL STATUS CREW [1]—Continued

[Hospital ship (TAH): Personnel listing (Medical Personnel) (Active) (12 MAR86)]

	Title, NOBC, NEC, and MDS	Corps and rate	No.
Laboratory technician	8501	HM	10
Cytology technician	8505	HM	2
Laboratory technician advanced	8506	HM	30
Inhalation therapy technician	8541	HM	12
Master chief petty officer of the Command (MCPOC)	9580	HM	1
General service dental technician	0000	DT	11
Advanced dental technician	8703	DT	2
Dental repair technician	8732	DT	1
Prosthetic technician advanced	8753	DT	1
Total			583
Corps/nonmedical enlisted			
Marine liaison	9916	USMC/ GYSGT.	1
Marine liaison	0151	USMC/SGT	1
Aviation boatswain's mate (fuel)	0000	USN/AB	3
Aviation boatswain's mate (fuel)	7022	USN/ABF	1
Aviation boatswain's mate (handler)	0000	USN/ABH	2
Airman	9760	USN/AN	6
Disbursing clerk	0000	USN/DK	10
Fireman	9760	USN/FN	1
Fireman	9770	USN/FN	1
Gunner's mate general	0000	USN/GMG	2
Journalist	0000	USN/JO	1
Journalist	3221	USN/JO	1
Lithographer	0000	USN/LI	1
Legalman	0000	USN/LN	3
Master-at-arms	0000	USN/MA	7
Machinist's mate	4283	USN/MM	4
Machinist's mate	4294	USN/MM	3
Mess management specialist	0000	ENL/MS	43
Mess management specialist	3529	ENL/MS	2
Operations specialist	0000	ENL/OS	3
Personnelman	0000	ENL/PN	19
Religious program specialist	0000	ENL/RP	3
Ship's serviceman	0000	ENL/SH	9
Ship's serviceman	3112	ENL/SH	2
Ship's serviceman	3122	ENL/SH	9
Ship's serviceman	3154	ENL/SH	9
storekeeper	0000	ENL/SK	18
Seaman	0000	ENL/SN	9
Seaman	9700	ENL/SN	18
Seaman	9750	ENL/SN	12
Seaman	9780	ENL/SN	14
Yeoman	0000	ENL/YN	16
Yeoman	2516	ENL/YN	1
Total			235
Subtotal medical personnel			837
Subtotal non-medical personnel			246
Total medical/non medical personnel			1,083
Total medical/non medical personnel for two hospital ships is			2,166

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[1] Includes ROS-5 cadre crew and augmentation crew for the Medical treatment facility aboard the hospital ship.

Question. What is the Navy's current medical staffing (both authorized and actual) by specialty?

Navy Answer.

MEDICAL CORPS AUTHORIZED/ONBOARD STRENGTH

	FY86 Auth	On board [1]
Executive Medicine	139	139
General Surgery	134	116
Colon-Rectal Surgery	0	1
Peripheral Vascular Surgery	2	4
Pediatric Surgery	0	1
Thoracic Cardiovascular Surgery	17	12
Neurosurgery	13	8
Plastic Surgery	7	8
Orthopedic Surgery	85	75
Pediatric, Orthopedic	1	3
Hand surgery	2	1
Anesthesiology	107	108
Anesthesia Critical Care	7	1
Obstetrics/Gynecology, General	111	97
OB/GYN Maternal-Fetal	0	3
OB/GYN Oncology	4	6
Perinatal	0	1
Urology	37	39
Otolaryngology	48	44
Ophthalmology	48	52
Pediatric Ophthalmology	0	1
Retinal Surgery	2	1
Pathology-Anatomical/Clinical	71	64
Pathology, Clinical	5	4
Pathology, Forensic	2	6
Pathology, Anatomical	3	2
Internal Medicine, General	136	119
Med Oncology	5	5
Cardiology	21	31
Endocrinology/metab	7	16
Gastroenterology	13	16
Hematology	10	13
Allergy/Immunology	2	1
Nephrology	6	9
Pulmonary Med	14	20
Rheumatology	3	8
Infectious Disease	7	14
Tropical Medicine	1	1
Family Practice	154	178
Pediatrics, General	153	165
Pediatrics, Cardiology	5	0
Pediatrics, Allergy/Immunology	2	5
Pediatrics, Nephrology	2	2
Neonatology	8	8
Radiology, Diagnostic	91	101
Radiology, Pediatric	1	0
Radiology, Therapeutic	7	4
Nuclear Medicine	9	11
Neurology	27	25
Dermatology	32	38
Primary Care Medicine/General Medicine	515	698
Psychiatry	104	86
Child Psychiatry	0	7
Preventive Medicine, General	23	11
Preventive Med, Occupational	27	10
Preventive Med, Public Health	0	1
Aerospace Medicine	42	19
Hyperbaric Medicine	0	5
Physical Medicine/Rehabilitation	0	1
Research	36	38
Emergency Medicine	18	19
Flight Surgery	259	259

MEDICAL CORPS AUTHORIZED/ONBOARD STRENGTH—Continued

	FY86 Auth	On board [1]
Undersea Medicine	77	68
Total	2,662	2,809

[1] Onboard as of 28 Feb 86.

WORKLOAD

Question. The workload for the Defense health care system is determined by among other things, the number of inpatient days, the number of outpatient days, and the number of clinic visits. These workload indicators have various degrees of resourcing assigned to them. Greater resources are provided for inpatient treatments, which may cause the hospital to be less cost-effectve.

Last year you told us that Health Affairs was moving to establish a more effective methodology of assesssing utilization and allocating resources. What has been done along these lines?

Answer. This fiscal year, a projected health care utilization rate methodology will be used to determine fiscal and human resource requirements. The rates are descriptive; they are based on historical utilization, but are adjusted to accommodate known trends in treatment modalities. For example, adjustments are made for increased outpatient surgery.

Question. It seems that the resourcing of workload can be a vicious circle, for example, a facility requests resources based on last year's workload. If the resources do not appear for this fiscal year then the number of clinic visits and inpatient surgery, of course, must decrease. Next year when the facilities again request resources, the request is based on even lower number of clinic visits, inpatient surgery, etc. With this kind of system, no wonder the Department has experienced such shortages in ancillary and other support staff. What is the Department doing to remedy this situation?

Answer. Resources requirements are based on projecting the demand for health care services. The assessment includes a review of the total beneficiary population and the projected health care utilization rates. The resources requirements are determined without regard to historical funding.

QUESTION. How has the testing for the HTLV-III had an impact on workload and manpower resources?

ARMY ANSWER. Although it is too early in the testing program to determine the quantitative impact in terms of workload and manpower requirements, it is clear that additional laboratory technicians and clerical personnel will be required by some of the 29 laboratories involved. Failure to provide these additional personnel will adversely affect the ability of the laboratory to fully support the patient care mission in some of the medical treatment facilities.

The other consequence of the testing program is that those individuals who test positive will require hospitalization for staging and evaluation, and those found to have clinical disease will require both inpatient and outpatient treatment.

Treatment of this disease is costly and personnel-intensive, requiring care by primary physicians, psychiatrists, intensive care nurses, and a variety of support personnel, including pyschologists, social workers, occupational therapists, chaplains and others. It has been estimated that the combined costs of providing one bed care from onset of clinical illness to death will exceed $200,000 per case.

Navy Answer. To date the HTLV-III testing program has had only moderate impact on workload and manpower resources. This is changing as the program increases to include all active duty and reserve Navy and Marine Corps personnel. Initial estimates based on incidence of HTLV-III infection in accession candidates indicate that over the next year approximately 2000 positive individuals will require a two week evaluation in one of four major Navy teaching hospitals. Staffing to support these evaluations will come from already taxed resources within the overall system and will include 20 Medical Corps officers, 32 Nurse Corps officers, 12 Medical Service Corps officers (counseling and administrative support), 100 Hospital Corpsmen and 16 clerical personnel dedicated to this effort. Care previously provided by these personnel to other beneficiaries will not be available during this program.

Air Force Answer. Our previous program for testing all accessions at Lackland Military Training Center utilized two technicians and one administrative specialist for the handling of samples. The ongoing HTLV-III test program at the blood donor center requires one extra manhour per day. The USAF School of Aerospace Medicine has devoted three laboratory technicians, one supervisor, and one administrative assistant to the laboratory work required for these programs.

The program to test all 600,000 active duty Air Force members over the next two years will require in excess of 40,000 manhours for specimen collection alone. In addition, at least five personnel will be required for quality assurance monitoring of the laboratory contract. Those personnel who test positive will be thoroughly evaluated at Wilford Hall USAF Medical Center, Lackland AFB, Texas, and those who actually have the disease will be treated at Wilford Hall. These program will require a minimum of one extra physician, three additional laboratory technicians, and staffing for a 25 bed ward: 7 nurses and 7 technicians.

OUTPATIENT SURGERY IN MILITARY HOSPITALS

Question. Outpatient surgery is not a widespread practice among military hospitals. In 1985, there were only 5 military hospitals known to have formal outpatient surgery programs, although other hospitals may be performing some outpatient surgery or performing such surgery in a clinic (e.g. doctor's office) setting. GAO reported in May 1985 (GAO/HRD-85-23) that 65 percent of 635 inpatient surgical cases it sampled at 6 military hospitals could have been done on an outpatient basis, with an estimated CHAMPUS cost avoidance of up to $3.6 million at those locations. The GAO report cited military medical officials' reluctance to initiate or expand outpatient surgery programs because resources (money and personnel) are allocated primarily on the basis of inpatient workload. Thus there is no fiscal incentives to encourage such expansions.

Based on DoD's experience, are outpatient surgery procedures as safe and effective as inpatient procedures?

Answer. At DoD, we strive to ensure that all surgical procedures—whether inpatient or outpatient—are performed according to accepted practices. Given the relatively less intensive nature of the surgical procedures performed on an outpatient basis, we are confident that these outpatient procedures will prove to be as safe and effective as the procedures done on an inpatient basis. The preoperative, operative, and postoperative case is identical. The only difference is that the patient does not remain overnight in the hospital.

Question. Has DoD's outpatient surgery program experience demonstrated that such surgery is more cost-effective/less costly than the same procedures performed on an inpatient basis?

Answer. Generally, surgical procedures done on an outpatient basis are less costly in the long term because the costs associated with an overnight stay in the hospital and all the personnel and materials costs associated with an inpatient bed day are eliminated.

Question. Do military service hospital staffing standards and/or workload measurement standards give any recognition to the use of outpatient surgery procedures?

Answer. Yes, the Department has recently switched from reviewing resource allocations based on the 1956 Composite Work Unit to the use of the new Health Care Unit. The decision to change was based on our disproportionately favored and rewarded inpatient procedures. The new system recognizes the increasing and more cost-effective role of using outpatient surgical procedures whenever appropriate.

Question. Do current staffing and workload measurement standards provide any incentive for outpatient surgery expansion, or do such standards act as a disincentive for expansion?

Answer. No, current standards do not provide increased incentive for outpatient surgery expansion. Our current unit of measurement, the Health Care Unit, displays 19 indicators that are balanced over the spectrum of outpatient and inpatient work. At the present time, Tri-Service efforts are underway to improve the overall usefulness of this measure, especially in the outpatient services area which includes outpatient surgery.

Question. Is there currently any incentive for military medical commanders and hospital commanders to initiate or expand outpatient surgery programs?

Answer. As indicated in the preceding question, we have formed a Tri-Service Performance Measurement Working Group to improve upon the current work standards and performance measurement units. We should see some of these results before this fiscal year is out.

Question. Is recapture of some CHAMPUS workload a necessary component of cost savings from outpatient surgery expansion, or could DoD achieve savings by substituting outpatient surgery for inpatient surgery?

Answer. Generally, surgical procedures done on an outpatient basis achieve savings in the long term because the costs associated with an overnight stay in the hospital and all the personnel and materials costs associated with an inpatient bed day are eliminated. The opportunity to recapture some CHAMPUS workload provides the potential for additional cost savings. It must be understood that these additional patients, while occuping a freed up bed, will consume additional resources needed to provide the care they require.

MEDICAL READINESS

EUROPEAN SURGEON

QUESTION. It has come to our attention through the news media that a new full-time surgeon has been named to the European Command. This action was recommended by the Appropriation Committees, and it was requested that both the Joint Chiefs of Staff and the Assistant Secretary of Defense for Health Affairs, work together in establishing this position.

Has a full-time surgeon been named for the European Command?

OSD ANSWER. A full-time surgeon was named and assigned to he European Command.

QUESTION. Dr. Mayer, were you consulted and included in this decision?

OSD ANSWER. The assignment of a specific officer to the position of European Command Surgeon is the responsibility of the Services in coordination with the Joint Chiefs of Staff and the European Command. There was no consultation with the Assistant Secretary of Defense (Health Affairs).

QUESTION. Considering this Committee's interest in medical readiness and the direction to name a full-time European surgeon that was contained in the fiscal year 1986 appropriation conference report, why were we not informed of this decision and instead, had to read about it in the newspapers?

OSD ANSWER. This was an oversight. Future appointments to the position of unified command surgeon will be made available to the Committee.

MEDICAL LOGISTICS

Question. The fiscal year 1986 DoD Appropriation Bill report, also directed that a single military service be employed as the manager of medical logistics in Europe. Again, the Assistant Secretary of Defense for Health Affairs was asked to work with the Joint Chiefs of Staff in developing a plan and designating a Service.

Is there any plan for naming a single military Service as the manager of medical logistics in Europe?

Answer. The Joint Chiefs of Staff (JCS) has informed Health Affairs that the Services are conducting a test of the concept of joint support wherein the Army Medical Materiel Center, Europe (USAMMCE) is providing medical materiel support to both the United States Navy, and Air Force, Europe. JSC indicates the Services have established criteria to ensure an objective appraisal of the support rendered. JCS adds, that at the conclusion of the test, either a decision will be made whether to formalize and continue the joint support arrangement, or to request the establishment of a Defense Logistics Agency (DLA) depot in the European theater for peacetime and wartime medical materiel support. DLA is expected to participate in the test evaluation which is estimated to be completed by July 31, 1986.

Question. Dr. Mayer, were you consulted and included in the developing of such a plan or the designation of the Service?

Answer. The Office of the Assistant Secretary of Defense for Health Affairs was not consulted regarding the development of the test plan and the designation of USAMMCE to provide medical materiel support to the other Services.

Question. Why was this Committee never informed that indeed its directive to establish a single Service manager of medical logistics in Europe had been completed?

Answer. The Committee's tasking has not been completed, therefore, we have not been able to report that fact back to the Committee.

CAPABILITIES OF SERVICES

QUESTION. The Service Surgeon Generals have maintained that one of your top priorities in the Department of Defense medical program is the capability to care for wartime casualties.

What are the current capabilities of the Army, Navy and Air Force to care for the wartime casualties?

ARMY ANSWER. The current capability of the Army to care for wartime casualties must be examined in the context of the entire health care system. The battlefield health care system has been significantly enhanced over the past few years. The most significant problem remains equipment shortfalls, a problem which is addressed in the current problem. Equipment of battalion aid stations and medical clearing stations has been fully funded and equipment has been delivered to medical units in the field. This greatly enhances the ability of the Army to provide the initial stabilization and resucitation to wounded soldiers. This program will continue to complete fielding to all Army units in the next two years.

The initiative to equip and modernize the hospitalization units is proceeding. In Fiscal Year 1987, the first of the Deployable Medical Equipment Sets (DEPMEDS) is scheduled for delivery. This equipment is the result of Fiscal Year 1984 funding. The equipping and modernization efforts funded in the program will change the equipped capability of approximately 35 percent to 100 percent equipped.

Sufficient personnel resources can be made available to meet the battlefield health care needs of the theater. However, if priorities are allocated to the theater for medical personnel assets, it should be clearly understood that the Army medical support in the Continental United States would be severely limited in meeting the treatment demands of returning casualties. This is attributable to personnel shortages in the Reserve components, particularly the Individual Ready Reserve. Health care for returning casualties would rely heavily on the Veterans Administration and the National Disaster Medical System.

Navy Answer. Navy's current capabilities to care for wartime casualties involve having the hospital beds, staff, equipment, and supplies to ensure that combat forces can be medically supported. Deployable medical systems have been programmed throughout the Five Year Defense Plan to ensure staff, equipment and supplies will be available to support the deployed bed. Navy's current bed capabilities are displayed below.

Answer.

Platform	Number of Platforms	Numbers of Beds/ Platforms
Level 2: Deployable flow-through beds:		
LHA	5	275
LPH	7	140
USMC Hospital Co	3	200
USMC Medical Co	15	60
USMC Surgical Platoons	6	20
Level 3: Combat zone definitive care beds:		
Rapidly Deployable Medical Facility	4	250
Level 4: Communication Zone Definitive Care beds:		
Deployable:[1]		

[1] None.

Location	*No. Beds*
Fixed Medical Treatment Facilities	
Adak	17
Guam	442
Guantanamo Bay	128
Iwakuni	13
Keflavik	27
Naples	102
Okinawa	638
Roosevelt Roads	128
Rota	68
Sigonella	35
Subic Bay	143
Yokosuka	171
CONUS Medical Treatment Facilities:	
Great Lakes, IL	1143
Groton, CT	133
Newport, RI	196
Philadelphia, PA	291
Bethesda, MD	1008
Patuxent River, MD	32
Quantico, VA	114
Dahlgren, VA	16
Portsmouth, VA	976
Beaufort, SC	247
Camp Lejeune, NC	249
Charleston, SC	360
Cherry Point, NC	129
Corpus Christi, TX	200
Jacksonville, FL	496
Key West, FL	145
Millington, TN	231
Orlando, FL	134
Pensacola, FL	342
Bremerton, WA	209

Location	*No. Beds*
Lemoore, CA	99
Oakland, CA	757
Oak Harbor, WA	38
San Diego, CA	1034
Camp Pendleton, CA	595
Twentynine Palms, CA	41
Barstow, CA	13
Long Beach, CA	692
China Lake, CA	11
Port Hueneme, CA	56

Air Force Answer. Today, we have prepositioned 8,914 beds of our requirement worldwide. Of these, 5996 are in Europe. At the end of FY '86 we will have prepositioned 11,414 beds of our worldwide requirement. Of these, 8496 beds will be in Europe. We have the capability today to staff these beds with augmentation of CONUS medical personnel who would deploy to the theater of operations.

Question. Dr. Mayer, you stated to our S&I staff that currently 4 out of 10 casualties can be adequately cared for in Europe. Do you still believe this?

OSD Answer. In previous testimony and other forums, I have tried to accurately reflect the operating room capabilities for injuries which are expected to occur on the battlefield and require surgery. These capabilities have been expressed in terms of "4 out of 10" as recently as January of this year. Unfortunately, different people have tried to interpret the meaning of these numbers, using criteria other than operating room availability at a specific point in time. They have stretched the imagination, interpreting these numbers to mean our total capability to treat casualties. As we improve our equipment delivery to the theaters of operations and improve our staffing for this support, certainly our surgical capability as well as our overall medical capability will improve. These long-term improvements, added to current host nation agreements for the very earliest periods of conflict and our programs for improved accession and retention of active and reserve health professionals, give us considerable capability for the short term with complete capability predicted on completion of our five year program to get well in the medical area.

Question. Why does General Greendyk, USAF, currently the acting EUCOM surgeon, claim that the military services in Europe could care for ten of every ten wartime casualties? Is this possible?

Air Force Answer. My testimony has provided an assessment of current Air Force medical readiness activities. Questions concerning the capabilities of the overall European Command should be addressed to the Commander in Chief of the European Command who has the operational responsibility for that theater of operations.

Question. Not only is medical equipment necessary for the treatment of wartime casualties, it is necessary that there be adequate medical staffing. Is General Greendyke claiming that the European Command not only has 100% of the equipment needed to care for ten out of ten wartime casualties but that it also has 100% of the required medical staffing?

Air Force Answer. Questions concerning the readiness capabilities of the European Command should be addressed to the Commander in Chief, European Command. An overview of Air Force medical readiness activities is contained in the testimony.

[CLERK'S NOTE.—The above two questions should not have been answered by the Air Force. OSD has been asked to respond.]

FY 1986 MEDICAL READINESS ADD-ONS

QUESTION. In fiscal year 1986, the House and Senate Appropriation Committees provided $125,900,000 above the budget request for medical readiness efforts in the Department of Defense. How has this money been spent? Have any of the items that were purchased with this funding been designated to go to the European Command.

ARMY ANSWER. The Army's portion of the increased funding for medical readiness is $72.6M. Of this amount $20M is to fund maintenance and repair of four Army mobilization hospital facilities in Germany. Improvements to these facilities will clearly enhance the Army's medical readiness in Europe. Remaining funding will be used to accelerate the acquisition program for combat hospital equipment. Shelter systems, major medical equipment and medical material sets will be purchased for at least six additional combat hospitals. Additional acquisition of other selected combat hospital equipment components is also possible. Based on current distribution plans at least three of the six additional hospitals will be fielded to Europe.

NAVY ANSWER. Navy's portion of the $125.9 million was $44.2 million. None of these funds have been spent. Language in the fiscal year 1986 Continuing Resolution (P.L. 99-190) precluded obligation of funds before a report by the Assistant Secretary of Defense for Health Affairs is submitted to the appropriations committees that profiles "the unfinanced requirement and how the requirement will be satisfied." Additionally, obligations cannot occur until supplemental authorization is provided.

AIR FORCE ANSWER. During FY86 one 500-bed contingency hospital will be procured for eventual prepositioning in the European Command with the funds added to the Air Force budget during the FY86 budget deliberations.

ARMY EXPENDITURES ON MEDICAL READINESS ITEMS

QUESTION. In fiscal year 1986, the Appropriations Committees provided $39.2 million above the budget request for 2 Army MASH units, one combat support hospital and 2 medical evacuation units.

What is the total dollar amount that has been appropriated to the Army to purchase medical readiness equipment from Fiscal Year 1983-1986?

ARMY ANSWER. The total dollar amount appropriated to the Army for medical readiness equipment during Fiscal Year 1983-1986 is $783.2 M. This amount is divided by type of funding and Fiscal Year as follows:

[In millions of dollars]

	FY 83	FY 84	FY 85	FY 86
OPA	37.4	56.7	102.7	195.4
O&M	51.8	69.1	105.6	101.1
Stock Fund		1.7	9.4	52.3
Total	89.2	127.5	217.7	348.8

Question. Has the Army used any of this funding to repair/refurbish old equipment rather than purchase new equipment? If so, how much has been used for this purpose and what equipment has been repaired/refurbished?

Army Answer. During the FY 83–86 timeframe, $862,000 was expended on the repair and refurbishment of old equipment. Funding was used to modify and upgrage field anesthesia apparatus, and to refurbish electrocardiograph units, defibrillators and field x-ray units.

Question. The fiscal year year 1986 DOD Appropriation Bill, provided an addition of dollar $125,900,000 above the budget request for medical readiness items.

What has DOD accomplished with this add-on?

Army Answer. The Army's portion of the increased funding for medical readiness totaled $72.6M. Of this total $33.4M is in OPA funds and $39.2M is OMA. Part of the OMA funding ($20.0) is earmarked to pay for maintenance and repair of hour Army mobilization hospital facilities in Germany. Maintenance and repair work on these facilities will place them in an improved readiness posture for use in the early stages of conflict.

The OPA funds and the remaining OMA funds will be applied to the acquisition program for combat hospital equipment. The Army will accelerate its acquisition schedule and in doing so significantly contribute to its objective of equipping the total required combat hospital force.

Navy Answer. Once these funds are authorized, Navy will procure two 500-bed combat zone fleet hospitals.

(Clerk's note: The Department of the Air Force was unable to provide a response in time to be printed in this hearing volume.)

Question. What have the Services been able to purchase with the add-on?

Army Answer. Funding for repair and maintenance of four Army mobilization hospital facilities in Germany is being passed to U.S. Army Europe Facility Engineer authorities. U.S. Army Europe will execute appropriate work orders and contracts for the repair and maintenance program. Upon authorization and release of the OPA funding, the Army will initiate procurement for additional combat hospital equipment. The remaining OMA funds will also be applied in this effort, specifically to buy the consumable components of the medical materiel sets. The Army will seek to requisition all shelter systems, major medical equipment and medical materiel sets for at least six additional combat hospitals. Further acceleration of selected hospital equipment and set components is also possible.

Navy Answer. No procurements have been made by Navy. Navy is awaiting supplemental authorization.

Air Force Answer. During FY86 one 500-bed contingency hospital will be procured for eventual prepositioning in the European Command with the funds added to the Air Force budget during the FY86 budget deliberations.

MEDICAL BMAR

Question. Of that $125,900,000 $20,000,000 was provided to eliminate the backlog of maintenance and repair at medical facilities. What has been accomplished with this $20,000,000? How has it been spread to the Services?

OSD Answer. The Army has received, on a funding allowance document, $17,500,000 to be used to eliminate the backlog of maintenance and repair at four mobilization hospital facilities in Europe. Work in such areas as operating rooms, medical storage areas, laboratories, radiology, emergency rooms, and intensive care units will be accomplished at Neubrucke, Bad Kreuznach, Baumholder, and Munchweiler.

MEDICAL READINESS BUDGET

Question. What is the total fiscal year 1987 budget request for medical readiness? Please break this down by operation and maintenance, other procurement, stock fund, and milcon for each of the Services.

OSD Answer. The Fiscal Year 1987 budgeted funds for supplies, equipment, and other costs associated with the purchase of Deployable Medical Systems are summarized as follows:

SERVICE FUNDING FOR DEPLOYABLE MEDICAL SYSTEMS BY APPROPRIATION

[In millions of dollars]

Service	Operation and maintenance	Other procurement	Stock fund	Milcon	Service totals
Army	76.4	136.9	40.9		254.2
Navy		110.5			110.5
Air Force	10.4	51.1	28.6	6.3	96.4
Total	86.8	298.5	69.5	6.3	461.1

CHANGES IN EUROPEAN COMMAND

Question. Dr. Mayer, we understand that there have been some very recent changes to the medical staffing in Europe. Specifically, we understand that General Greendyke has been removed from the position of European Command Surgeon and has been replaced by an Army surgeon, General Ledford.

What is the status of the staffing of the European Command Surgeon position?

OSD Answer. The acting European Command Surgeon is Major General Frank F. Ledford, Jr., MC, USA. General Ledford is the senior medical corps officer currently assigned within the European Command.

QUESTION. Why was General Greendyke removed from the Command Surgeon position?

OSD ANSWER. General Greendyke no longer held the confidence of Secretary Weinberger.

QUESTION. General Chesney, what will General Greendyke be doing now?

AIR FORCE ANSWER. General Greendyke has been assigned as Special Assistant to the Surgeon General.

QUESTION. The directive from JCS stated that the European Command Surgeon position would be rotated between the Services; First Air Force, then Army and Navy. Which Service will fill this billet?

OSD ANSWER. The parent service of the next European Command Surgeon has not been determined.

QUESTION. Who will replace General Ledford as the 7th Medical Command commander?

ARMY ANSWER. General Ledford is the acting European Command Surgeon. Should General Ledford be selected for European Command Surgeon, he will be replaced as 7th Medical Command commander.

HEALTH MAINTENANCE ORGANIZATIONS

QUESTION. Health Maintenance Organizations are designed to allow the hospital commander to make decisions as to whether or not people seek medical care outside of the military hospital. This essentially allows the hospital commander control over his resources. We understand, that this program is essentially going nowhere.

What was your progress in fiscal year 1985 in examining the use of HMOs?

OSD ANSWER. PL 96-527, DoD Appropriations Act, 1981, authorized CHAMPUS to conduct demonstrations contracting with prepaid health maintenance organizations. The projects were designed in such a way as to reduce costs without adversely affecting benefits.

In 1981, CHAMPUS awarded contracts to 8 HMOs in 3 cities: Portland, Oregon; Minneapolis, Minnesota; and, Houston, Texas. At the close of FY 1985, there were 1,590 families with 3,506 family members enrolled in Portland, Oregon; 1,020 families with 2,343 family members enrolled in Minneapolis, Minnesota; and, 218 families with 423 family members enrolled in Houston, Texas. The government paid premiums for the fiscal year were $3,529,000, while the beneficiaries' portion of the premiums was $904,200 for the 6,272 enrolled family members.

QUESTION. How do you plan to use HMOs in 1986 and 1987?

OSD ANSWER. In regard to the HMO demonstrations, two activities are occurring. First, we have contracted for an evaluation of the projects, analyzing their cost-effectiveness, enrollment procedures, marketing, rate setting, effectiveness of delivery and beneficiary satisfaction. Second, we will not be renewing the contracts for the Houston, Texas area this year due to the very small number of beneficiaries who chose to enroll. This lack of interest may be due to the presence of a Uniformed Services Treatment Facility in the area.

In regard to the future use of HMOs in general, it will depend on the direction taken by the regional organizations we are expecting to contract with for CHAMPUS services. We would anticipate that HMOs could play a part in these contracted arrangements because of their past demonstrated ability to provide cost-effective quality care.

Question. Last year you stated that the first demonstration project would be at Fort Ord in Monterey, California. Was this demonstration ever initiated? When?

OSD Answer. A year ago we were planning on initiating three Catchment Area Demonstrations (CADs), one of which was to be at Fort Ord, California. In the CAD it was envisioned that the local hospital commander would be given both his own Service's budget for health care services and the funds the CHAMPUS would expect to spend for the beneficiary population in that area. The concept envisioned that the local commander would conduct an economic analysis of all of his own in-house services, analyze and evaluate all of the alternative services that could be contracted with the local civilian health care community and put together the most cost-effective, high quality health care service package possible. However, the CAD sites discovered that the analysis required in order to come up with the most cost-effective package would take one to two years, plus another year to award all of the required contracts. This would put the operational start date for the demonstration into FY 1988. At the same time, the Department decided to go ahead with the overall restructing of CHAMPUS to take advantage of the competitive environment in health care. This initiative is expected to take effect before the CADs could begin to provide any useful information.

PERSONAL SERVICES CONTRACTING

Question. The Services have used Personal Services Contracting to fill support and ancillary staff positions in the medical community. Fiscal year 1985 was the first year that Personal Services Contracting was employed.

a. What were the Services' experiences with Personal Services Contracting in fiscal year 1985?

b. What were the Services; budgets for Personal Services Contracting in fiscal year 1985 and 1986.

c. What is budgeted for Personal Services Contracting, by Service, for fiscal year 1987?

d. Have the Services had basically favorable or unfavorable feed back on the use of Personal Services Contract?

Army Answer. FY 85 was a transition year from the contract surgeons program to the new, expanded contracting authority. Of the $8.1 million expended, $7.4 million was used to contract physician services; $700,000 was used to contract for nursing and ancillary support personnel. To date in FY 86, authority has been given to HSC for MTFs to contract for 395 manyears at a projected cost of $23 million. Of the 395 manyears, 139.9 is projected for physicians, 183.4 for nursing, and 71.7 for ancillary support personnel.

b. The Army budget for Personal Service Contracting for fiscal years 1985 and 1986 is $7 million and $19 million respectively.

c. The Army Personal Services Contracting budget for fiscal year 1987 is $19 million. This amount does not include the Medical Enhancement Program of $24.8 million which will provide additional contract personnel as well as direct-hire staff.

d. On balance, the feedback from the operator level has been favorable. Demand for contract dollars jumped from $11.2 million in FY 85 to $43.8 million in FY 86 and is continuing to grow. Contracting is clearly believed to be the best method of overcoming staffing shortfalls in the absence of increased force structure. Significant problems, however, do exist. No standard of guidance in contracting regulations has made contracting support difficult to obtain, especially for those activities supported by other Major Army Commands. Currently, contracts require anywhere from three to six months to finalize and obtain services. It is expected, however, that the establishment of the Health Services Command Central Contracting Activity will alleviate some of the current problems. An additional problem for some activities has been difficulty in obtaining some specialities within the statutory/regulatory pay ceiling.

NAVY ANSWER. Fiscal year 1985 was the start-up year for Personal Services Contracting. Navy efforts were initially directed toward the development of standards and the promulgation of implementing instructions to field commands. Due to the uniqueness of this form of contracting, technical review and approval of all contracts has been at the headquarters level. Based upon experience to date, we are developing certain standard contracts for the more common, recurring contract areas (OB/GYN, Family Practice, etc.) to be approved at the geographic command level (Echelon 3). This will greatly speed up the process. The more complex and peculiar contracts will continue to require headquarters approval.

While much of the initial effort was expended in standards development, review, and promulgation of instructions to field activities, a number of contracts were reviewed and approved in fiscal year 1985 and sent back for the initiation of procurement action. Due to the long lead-time required and the pay restrictions set for personal service contracts necessitating at times the use of non-personal service contracting for some specialties, $2.6 million has been obligated in fiscal year 1985 for both personal service contracts and non-personal service contracts.

b. Navy budgeted $4,785,000 in fiscal 1985 and $4,952,000 in fiscal year 1986. These are considered "target" projections since they must be expended on personal services or on non-personal services contracts if no bidders can be found for personal services type contracts because of dollar limitations on personal services contracts.

c. $4,824,000 is budgeted in fiscal year 1987. Again, these are considered "target" projections since they must be expended on personal services or on non-personal services type contracts because of dollar limitations on personal services contracts.

d. Navy feedback has been favorable. Personal services contracting offers an additional and valuable tool for health care resource management by promising to provide a preferred "quick" contracting avenue for staffing certain health care provider manpower shortfalls. Instances where PSCs are useful include: staffing military billet gaps (summer hiatus), staffing billets vacant due to recruiting problems, and meeting temporary workload increases (limited duration programs).

Other desirable benefits of the program include:

More control over provider performance: Under other contracting programs only the contract administrator can "direct" the contractor, but under PSCs the military treatment facility department head is the contractor's "supervisor."

Less costly than supplemental care or care under the Civilian Health and Medical Programs of the Uniforms Services (CHAMPUS) Providers use existing government facilities and support services. They do not have to carry liability insurance which reduces provider overhead and thus potential contract costs.

Only "quick" contracting solution for active duty health care: Active duty personnel cannot be treated under the OCHAMPUS Joint Health Benefits Delivery Program (must be CHAMPUS-eligible), and commercial activities contracts take 12 to 18 months to award because of the initial cost study. Now that implementing instructions are in place, personal services contracting is a much more reactive means to filling specialty shortfalls and will become even more so as standard contract formats are developed.

Good public relations: Patients are treated in Navy military treatment facilities and perceive that they are receiving "full benefits" at no cost to the patient.

The major disadvantage to the program is the dollar ceiling on contract costs which is capped at the 0-6 level with 26 years of service. The "cap" restricts the military treatment facilities' ability to solicit in the private sector certain high cost specialists, such as neurosurgeons and obstetricians/gynecologists. These services are often provided under non-personal services contracts.

AIR FORCE ANSWER:

a. The Air Force Medical Service had no personal services contracts in fiscal year 1985.

b. Fiscal year 1985: $0.0; Fiscal year 1986: $5.5 million.

c. Fiscal year 1987 $5.5 million.

d. The Air Force Medical Service has insufficient feedback to evaluate personal services contracts because the first contract was effective 1 February 1986.

CHANGES IN THE NAVAL MEDICAL COMMAND

QUESTION. This Committee has long been interested in the use of physicians in administrative positions. More than likely, physicians are oriented to their professional skills and do not necessarily have the training that they need to work in administrative positions. It is therefore, with great interest that we have heard that the Naval Medical Command is contemplating changes to the career paths for physicians. As we understand it, there would be two career paths, one would be for clerical medicine and the other would be for hospital administration.

Has there been any formal changes made to the Naval Medical Command to establish two career paths for physicians?

Navy Answer. No formal changes have been made to the Naval Medical Command to establish the two career paths at this time.

Question. Does the Navy plan to issue such changes?

Navy Answer. The concept of a two career path for physicians is in the proposal development stage. The proposal is for a clinical career path and executive hospital management career path.

Question. How would the new program work?

Navy Answer. The proposal will be a two track system which will put top quality clinical professionals in leadership positions which are responsible for the practice of Navy medicine dealing with treating, research and teaching in the healing arts. The other track will put top quality health care support and management senior officers in positions where they will lead, manage and administer facilities, personnel, equipment and support functions.

Question. How many physicians would actually be affected by this change?

Navy Answer. All career Medical Corps officers would be given the option of the clinical or executive hospital management track. Physicians would compete with other corps of the Navy Medical Department for selection in the executive hospital management track.

Question. How will this change affect the Medical Service Corps officer?

Navy Answer. Officers of all corps of the Navy Medical Department (including Medical Service Corps) who desire to follow an executive hospital management career in Navy medicine will compete for selection for designation as a Health Care Professional. The decision to compete for this designation would be made at the mid-point of the officers career. The full impact on the Medical Services Corps has not been determined at this time.

MEDICAL ENHANCEMENT

Question. The fiscal year 1986 Department of Defense Appropriation Bill provided $20 million above the Army's budget request for the enhancement of medical staffing. How was the $20 million dispersed to Army medical facilities? Was $7,700,000 provided to Madigan Army Medical Center as designated by the conferees?

Army Answer. The $20 million provided to enhance medical staffing was distributed to Army Medical Centers' and Community Hospitals as reflected by the following distribution.

FISCAL YEAR 1986 MEDICAL ENHANCEMENT PROGRAM DISTRIBUTION OF FUNDS

Facility	ICU		ER		Ancillary		Total	
	WYs	Amount	WYs	Amount	WYs	Amount	WYs	Amount
BAMC	21.0	$478	7.0	$178	13.8	$304	42	$906
DDEAMC	7.0	174	5.0	102	12.8	283	25	559
FAMC	8.0	176	4.0	80	7.9	175	20	431
LAMC	5.0	110	2.0	52	10.9	240	18	402
MAMC							143	[1] 5,400
TAMC							69	[1] 1,810
WBAMC	12.0	268	3.0	70	11.8	261	27	599
WRAMC					13.8	305	14	305
Belvoir	2.0	56	4.0	96			6	152

FISCAL YEAR 1986 MEDICAL ENHANCEMENT PROGRAM DISTRIBUTION OF FUNDS—Continued

Facility	ICU		ER		Ancillary		Total	
	WYs	Amount	WYs	Amount	WYs	Amount	WYs	Amount
Benning	6.4	186	3.3	78			10	264
Bragg	14.8	414	12.8	308			28	722
Campbell	3.2	90	6.2	148			9	238
Carson			4.1	100	7.9	174	12	274
Devens			4.6	110			5	110
Dix	1.4	40	5.5	132	2	44	9	216
Eustis	2.8	78	4.0	96	2	44	9	218
Harrison			1.4	34			1	34
Hood	10.9	304	9.0	216	9.9	218	30	738
Huachuca	1.6	44	5.6	134	1	22	8	200
Irwin			2.8	66	1	22	4	88
Jackson	3.3	92	3.2	76	2.9	65	9	233
Knox	2.6	74	4.2	100			7	174
Leavenworth			3.3	78	1	22	4	100
Lee			4.8	112			5	112
Leonard Wood	14.4	404	1.4	34			16	438
McClellan			1.8	44	2	44	4	88
Meade	3.2	90	4.7	112			8	202
Monmouth	.8	22	3.3	78	2.9	65	7	165
Ord	6.1	170	6.5	156			13	326
Panama			.9	22	6.95	153	8	175
Polk			4.8	114	2	44	7	158
Redstone	4.0	112	3.	88	1	22	9	222
Riley	3.1	86	8.5	204			12	290
Rucker	1.2	34	1.5	36	3.9	87	7	157
Sill	12.4	348	15.7	376			28	724
Stewart	4.6	130	1.7	40	6.9	152	13	322
West Point			3.8	88	1	22	5	110
Total	151.8	3,980	157.4	3,758	125.4	2,768	651	17,716

[1] Funds distributed to MAMC and TAMC without regard to allocations of WYs to Special Services.

Because funds were received after the beginning of the fiscal year, Madigan Army Medical Center will not have full year expenses for the additional support staff. Consequently, they have been allocated $5.4 million in FY 1986. They will receive the $7.7 million for FY 1987.

Question. This committee requested the Army supply a study on the requirements for medical staffing for peacetime, within 30 days of the enactment of the Appropriation Bill. That deadline would have been January 19, 1986. You did not meet that deadline. When do you plan to submit the study?

Army Answer. I apologize for the delay; the reply was submitted to the committee.

Question. How many people were hired with this additional funding? Please provide this data by specialty.

Army Answer. The Army will be providing a quarterly report on the obligation of funds and employment levels for the quarter ending 31 March 1986, since this will be the first quarter in which funds are available. The number of personnel hired by specialty will be included with this quarterly report.

Question. Did this funding provide the ability of these medical centers to reach a 95% staffing level? If not, what level of funding would be required to bring these medical centers to 95% of required staffing?

Army Answer. The congressional increase in FY 86 brought the staffing level in medical centers to 82%. An additional $71,000,000 would be required to bring medical centers to 95% of required staffing.

MEDICAL CENTERS

[Staffing]

	Requested	Auth	Percent
Current	21050	16873	80
End Fiscal Year 1986	21050	17195	82
Required staffing	21050	19998	95

CHAMPUS COVERAGE OF CHEMICAL AVERSION THERAPY

Question. The fiscal year 1986 DoD Appropriation Bill report requested that the Secretary of Defense convene another conference of experts on the issue of chemical aversion therapy and to consider all available studies in reaching a decision on coverage of this type of therapy. Has the Committee's direction been carried out? What has been the results of the Conference?

OSD Answer. The Office of the Civilian Health and Medical Program of the Uniformed Services is responding to the Committee's direction. A comprehensive list of organizations and individuals prominent in the field of alcohol and other substance abuse was developed. They are being surveyed for their willingness to participate in a conference, to identify any scientific studies and pertinent literature on aversion therapy that might be considered, and to solicit current opinion. The results of the survey are expected by mid-April, 1986. As soon as an analysis of the responses can be completed, the results will be shared promptly with the Committee, along with the OCHAMPUS plans and timetable developed on the basis of the survey results.

UNIFORMED SERVICE TREATMENT FACILITIES

Question. Please provide by Service the budgeted amount and actual obligations for Uniformed Service Treatment Facilities (USTF) for fiscal years 1982—1987. Please include all reprogrammings within this total.

Answer. The information is shown below. No funds were identified for the Uniformed Service Treatment Facilities in the fiscal year 1982 budget request; the program came into existence that year.

FISCAL DATA USTF'S

[Dollars in millions]

	1982	1983	1984	1985	1986	1987
Army:						
Budget	0	23.5	28.5	46.5	45.1	64.0

FISCAL DATA USTF'S—Continued

[Dollars in millions]

	1982	1983	1984	1985	1986	1987
Obligated	17.0	26.0	40.2	52.1		
Navy:						
Budget	0	16.5	23.7	32.2	48.5	51.3
Obligated	11.8	24.7	28.5	43.0		
Air Force:						
Budget	0	10.9	8.4	25.5	26.0	51.5
Obligated	6.8	15.5	24.5	34.0		

RATES FOR MILITARY MEDICAL FACILITIES

QUESTION. Please provide the fiscal year 1986 rates charged in military medical facilities for the following categories:

a. Non-DoD beneficiaries, inter-agency, others and IMET. (For general medical and dental, the burn center at Brook Army Hospital, per outpatient visit and per FAA air traffic controller examination.)

b. Dependents of active duty and dependents of retired and deceased-dependent rate for inter-agency, others and IMET. Please break this down by inpatient and outpatient costs.

c. Active duty military (officers and enlisted) for inpatient and outpatient costs).

d. Retired military for inpatient and outpatient costs, broken down by officers and enlisted.

OSD ANSWER. For personnel not entitled to medical and dental care in military treatment facilities (for example, non-DoD beneficiaries), the following reimbursement rates apply for inpatient and outpatient medical care:

RATES FOR MEDICAL-CARE

	IMET	Interagency	Other
Per Inpatient Day, Burn Center, Brooke Army Hospital	$679	$1,344	$1,457
All Other general medical and dental care	153	410	441
Per outpatient visit	19	55	58
Per FAA traffic controller examination		84	

Dependents of active duty and dependents of retired and decreased reimburse the military treatment facility $7.30 per day when admitted as an inpatient. This covers subsistence and medical and dental supplies costs. There is no charge for medical treatment on an outpatient basis.

Active duty military (officers or enlisted) pay an amount equal to a day's subsistence for each inpatient day in the military treatment facility. The current subsistence charge is $3.60 per day. There is no charge for outpatient visits by active duty military.

Retired military officers reimburse the military treatment facility $3.60 per day for subsistence as an inpatient. An enlisted member, or former enlisted member, who is entitled to retired or retainer pay, or equivalent pay, is not charged for subsistence as an inpatient. Retired military are not charged for outpatient visits.

QUESTION. Please provide the rates charged to CHAMPUS in fiscal year 1986 for the following categories:

Dependents of active duty, by inpatient and outpatient costs.

OSD ANSWER. CHAMPUS shares the cost of covered health care services provided to eligible beneficiaries in the civilian sector.

For outpatient care, there is a yearly deductible of $50 for one person or $100 for a family. The deductible is the same for all families—active duty, retired, or survivor. After the deductible is met, for each medical bill active duty families pay 20 percent and all others pay 25 percent of the CHAMPUS allowable charge. If the health provider bills the beneficiary for more than the allowable charge, the beneficiary pays the difference. (The allowable charge is what most providers in that state have billed for a particular medical service.)

There is no deductible for inpatient care. The amount paid by the beneficiary depends upon the sponsor's status with the service. Families of active duty members pay at least $25 or a small fee for each day in a civilian hospital—whichever is greater. The daily fee, which is the same charged for inpatient care at military hospitals, is currently $7.30. CHAMPUS pays the rest of the covered hospital and doctor bills. Retirees, their families, and survivors pay 25% of the cost in a civilian hospital. CHAMPUS pays 75% of the covered hospital and doctor bills.

INFLATION RATES FOR MEDICAL PROGRAMS

QUESTION. Higher inflation rates are assumed for medical costs. This is to insure that medical accounts are not underpriced and therefore underfunded.

What is the inflation rate that appears for CHAMPUS and other medical programs in the fiscal year 1986 line of the 1987 budget?

OSD ANSWER. The CHAMPUS budget shows an 11.1% inflation rate for the period FY 85-86. The Service medical programs are contained within the Operation and Maintenance appropriations budgets. The OMB-provided inflation rate of 3.5% is shown in the budget for the major categories affecting medical programs (non-stock fund supplies and materials and other contracts). Use of a separate inflation rate for medical portions of the Service budgets has been considered, but not approved. Further documentation on the need for a separate rate, and a clear-cut method for establishing an appropriate rate, is required.

QUESTION. b. What is the budgeted inflation rate for CHAMPUS and other medical programs in fiscal year 1987?

OSD ANSWER. The CHAMPUS budget shows an inflation rate of approximately 8.7% for FY 1986 to FY 1987. The Service Operation and Maintenance budgets show inflation at a 4.0% rate.

HEALTH PROFESSION SCHOLARSHIPS

QUESTION. Please provide the total costs for health profession scholarships in fiscal year 1985, 1986 and 1987. Please break this out by Reserve personnel. Operation and Maintenance, and other support costs. Also break this out by Army, Navy and Air Force costs.

Army Answer. The Army's total costs for health profession scholarships in fiscal year 1985, 1986 and 1987 are shown in the following table.

HPSP COSTS

[In thousands of dollars]

Appropriation	Fiscal year—		
	1985	1986	1987
Reserve Personnel, Army	$13,845	$14,165	$14.165
Operations and Maintenance, Army	15,326	14,459	14,600
Total	29,171	28,624	28,765

Navy Answer.

HPSP COSTS

[In thousands of dollars]

	Fiscal year—		
	1985	1986	1986
Operations and Maintenance, Navy	13,027	12,584	12,312
Reserve Personnel, Navy	$13,661	13,501	12.819
Other Support Costs, Navy	0	0	0
Total	26,688	26,085	25,131

Air Force Answer. The Air Force costs in thousands of dollars are as follows:

Operations and Maintenance	
Fiscal year 1985	$14,048
Fiscal year 1986	14,783
Fiscal year 1987	16,691
Reserve Personnel:	
Fiscal year 1985	15,961
Fiscal year 1986	15,825
Fiscal year 1987	16,095

FITZSIMONS ARMY MEDICAL CENTER

Question. What is the status of the Army's study of the future of Fitzsimons Army Medical Center in Denver?

Army Answer. The Department of the Army is currently conducting a realignment feasibility study at Fitzsimons Army Medical Center. A key element of this effort is an economic analysis of the health care requirements of DoD beneficiaries in the Denver area. This economic analysis is required by P.L. 97-337 and is currently underway. The results are expected to be available in mid-1986.

Based on the recommendations of the Blue Ribbon Panel on Sizing DoD Medical Treatment Facilities, the Department is in the process of determining the force size and mix as well as the Graduate Medical Education teaching and training base necessary to support readiness requirements.

Should this information indicate that it is not necessary to maintain or replace Fitzsimons, a formal base realignment study under the provisions of Army Regulation AR 5-10 will be necessary. This study will comply with the requirements of Title 10 U.S.C., Section 2687 and will afford the Congress the opportunity to review all recommendations and findings.

MEAL RATE CHARGES

Question. Has the Department of Defense implemented the recommendations made in the DoD Inspector General survey on meal rate charges at DoD medical treatment dining facilities, dated January 15, 1985? If so, when were the recommendations implemented.

OSD Answer. DoD is in the process of implementing the recommendation in the DoD Inspector General Survey Report on the Meal Rate Charges at DoD Medical Treatment Dining Facilities, dated January 25, 1985. Our draft revision to Chapter VII, DoD 1338.10-M, "Manual for the DoD Food Service Program," provides that the following personnel who are not receiving per diem are exempt from surcharges: "(h) When no other feeding facility is available and the nature of the individual's duty assignment, as a matter of mission essentially, requires his or her immediate availability thereby precluding the individual from eating except in the appropriated fund dining facility. For medical facilities, this specifically refers to the Medical Officer(s) of the Day (MOD) and Administrative Officer(s) of the Day (AOD)." Expected implementation date is June 1, 1986.

ASBESTOS REMOVAL PROGRAM

Question. The fiscal year 1986 DoD Appropriation Bill report, raised concerns of the Committee on significant problems and questions of asbestos removal. These included the cost of asbestos removal, the extensiveness of the claims filed against the Government, the disposal of asbestos once it had been removed, the feasibility of complete removal of asbestos from all DoD property, and the replacement of asbestos with less effective and shorter lived materials. The Committee also cited revised EPA guidance in the current data and directed the Department to evaluate the asbestos removal policy and guidelines based on this information.

a. Has the Department reevaluated their asbestos removal policy and guidelines?

b. If so, what are the new policies?

OSD Answer. The Military Departments have reevaluated their asbestos programs and incorporated revised EPA guidance where appropriate. All Components use an occupational exposure standard of 0.5 fibers/cc, which will be lowered if OSHA lowers its standard to a lesser value. The Department of Defense (DoD) does not have, at the Departmental level, a specific asbestos removal/control policy. In its overall occupational safety and health program (DoD Instruction 6055.1 of October 1984), the DoD, however, has developed a methodology to categorize the health hazard severity of a wide range of physical, chemical, or biological workplace hazards. This system incorporates mishap probability, exposure level, and medical effects of exposure into a risk assessment code which prioritizes all hazard abatement actions. Since asbestos is a hazardous material included in this methodology, a specific DoD asbestos abatement policy is not necessary.

QUESTION. The Committee also directed DoD to develop a new program to identify the presence of asbestos, experiment with air monitoring, plan an asbestos control program, and develop a plan for further action based on real health risks, need, cost, and feasibility.

a. Has the Department complied with the Committee's request?

b. If so, what has been the Department's progress in developing a new program?

OSD ANSWER. The Department of Defense has been a leader in recognizing workplace hazards and in developing new policies and procedures when potential health and safety hazards are identified. Military Departments' existing asbestos control programs are equal to or better than the minimum programs specified by current OSHA and EPA regulations. A vigorous effort was initiated several years ago specifically to identify potential asbestos hazards and to assess the risk from the identified asbestos uses. Asbestos control policies were developed to eliminate, where practical, the asbestos risk based upon the physical condition of the asbestos, i.e., friability, and air monitoring data. The Military Departments continue to conduct surveys to plan for asbestos removal or control. Other Federal agencies, including EPA and OSHA, have benefited from the Military Departments' initiatives as they develop national programs. The Military Departments will continue to revise policies and procedures for dealing with asbestos as new information and/or technology indicates changes are needed. DoD representatives met with EPA officials on December 18, 1985 to brief them on Military Departments' asbestos programs. EPA expressed satisfaction with existing policies and programs.

[CLERK'S NOTE.—End of questions submitted for the record.]

Mr. ADDABBO. To our visitors, we thank you for visiting with us this afternoon.

From this point on the hearing will be closed. All those not cleared to be in the room during the closed session will please vacate the room.

EXECUTIVE SESSION

Mr. **CHAPPELL** [presiding]. The Committee will come to order.

CONVICTION OF COMMANDER BILLIG

Mr. **MURTHA**. I wonder if I could ask one question about the Billig case before we get to the other questions, since we are in closed hearing.

I wonder, Mr. Secretary, if I can ask you about this case that we just saw tried. How can a doctor like that, first of all, get credentials and second of all, practice and not seemingly have any supervision, at least if he had supervision? From the reports I have seen, it did not seem like it was very appropriate and obviously the court must have agreed with that.

Dr. **MAYER**. Yes, sir. I will defer to Admiral Seaton, who is his superior in the Medical Department, if I may.

Admiral **SEATON**. It was not a great suprise that a question on Commander Billig might be asked today. I think you have to go back a long ways. I was not at the actual military trial, but I have read the entire official board of inquiry. There were a number of times in the entire history of this when something could have been done, when the system said, "Hey, here is something."

It was more a failure of individuals than it was of the credential.

I will start by saying, can I sit here and guarantee you today that that won't ever happen again in the history of the world; I really can't, because I believe that an intelligent person, and I think you have to grant him that he was intelligent, who makes a willfull effort to thwart things whether it be a credentialing system or security system like a spy, that it can be done if he really pushes.

My job is to devise a system and a policy to catch them before that happens.

So let's go back when Commander Billig first came in. As I recall it from my memory, there were recruiting problems. That is why you see two recruiting officers basically under pressure to recruit cardio-thoracic surgeons. I think you would probably have to say they were probably under pressure. After all, to recruit a cardiovascular surgeon into the military at the price we pay has to get you a number of points when he, in the outside world, has a greatly different salary.

Mr. **MURTHA**. Are you saying the quality of the Navy surgeons is inferior because of the salary?

Admiral **SEATON**. I don't think I said that at all. I said I believe that—first of all, most of our Navy surgeons and doctors we grow ourselves from the scholarship programs which you support and from our internal training programs, and that sort of thing.

Remember, Dr. Billig isn't one of our home-grown ones. Dr. Billig came from the civilian world. He came from Pittsburgh. Okay? That is where he came in. That is where he was recruited. He was on the staff of hospitals there.

I am from Pittsburgh, too. Don't think I didn't get a lot of heat for that. It says right in my bio, you show, you know, but that is where he came from after bumping around from New Jersey and things of this nature. So he came to us from there.

He was recruited improperly. I think you would say disciplinary actions taken against the officers who did not recruit him properly has been taken by trial by court martial.

Mr. MURTHA. So you are saying that they recruited him and didn't check out the credentials properly; is that the first mistake?

Admiral SEATON. That is correct.

Mr. MURTHA. And those officers——

Admiral SEATON. They have been taken to court martial, also. One has been finished and the other one is, I believe, upcoming soon.

Mr. MURTHA. Okay.

Admiral SEATON. One of the lessons to be learned out of this was to look at every aspect of our system. I told you I convened a meeting in July to look at these in terms of lessons learned, so, yes, recruiting command, which these people were medical service company officers, but not—the medical department doesn't recruit. This was a different command that recruits, but we loaned them these people, these people turned out to be obviously able to be pressured into doing things one way or the other or from their own desires to look better on their recruiting.

I can't answer that question for you. But anyway so now he is recruited. Then the package is out of recruiting command. Now it gets into the medical side of the house and that package begins to be looked at.

I remind you, if you looked at the package, the man's credentials as they stand from where he trained under Dr. Debakey, under the glowing letters he got from many, many places, this wasn't a guy that came in with a package that said this guy was a bum.

Mr. MURTHA. Were those letters authentic?

Admiral SEATON. Oh, yes, sir. But there were flags in there.

You know one of the things was, gee whiz, here is a man who had a license in a state, it was not revoked. You know, in our day and age, let's go back four or five years, revoking a license was a red flag, but an orange flag was why a man voluntarily give up, okay? Maybe we didn't—obviously. But he said maybe he didn't want to practice in that state. I can tell you that aspect of it is——

Mr. MURTHA. You say he gave up his license in a state?

Admiral SEATON. Yes, sir.

Mr. MURTHA. I didn't know that.

Admiral SEATON. We learned to ask the question, not what licenses do you have and what licenses have you had revoked. We have learned to ask the question, give me all of the states you have ever had a license in; how many do you still have and if you don't have them, why?

Mr. MURTHA. So he had a license in several states and in one state he gave the license up and you either didn't know it or—in any event, the question wasn't raised.

Admiral SEATON. That is correct. That question should have been asked.

When the people went back to some areas where he practiced and asked, you got to put yourself in the mileau of 1982 in which some of the first litigations against both physicians who basically gave a frank appraisal of a colleague or a hospital or health care system, they were getting sued by the man who somebody said wasn't so good and there are landmark decisions, the great one in Oregon now in which the people said, this guy is not so good, have been personally held liable for making those statements.

You know, it goes always. You have to put part of that in that context. But is was not really all that forthcoming, as I recall it. I am working from memory, but it is a memory not all that bad.

So, yes, we didn't—when we asked for what the story was, we didn't get a nice big sheet of paper saying, A, B, C, D. As we look at it now, we learned to read between the lines. If somebody isn't said to be very good, we better start asking how come you didn't say that.

Mr. **Murtha**. You mean to tell me other professionals actually wrote letters. You don't know obviously that they knew something was wrong, but in the one place, he just avoided telling you he practiced in one state?

Admiral **Seaton**. No. No, it was just that he never had his license revoked.

Mr. **Murtha**. But they wrote, you said he got glowing reports. So he actually had colleagues that wrote.

Admiral **Seaton**. You go back a long way. When he was in training, different places. Don't forget, he had people come testifying at both his board of inquiry and his trial for him that had defended him in the past in terms of physicians saying, "Hey, this guy wasn't all this bad; sure, this was a bad case." You know, he had people on his side.

Mr. **Murtha**. Of course, obviously the court didn't agree with that.

Admiral **Seaton**. Absolutely.

Mr. **Murtha**. Obviously the military didn't agree or they wouldn't have disciplined the people that recruited him.

Admiral **Seaton**. That is correct. Now we get it through the central group that looks at that sort of thing and now he is sent to a hospital. You again go through the process and again there were red flags, but it was said we were going to provide you, credential you provisionally and a box to stay in. He exceeded that. That is what some of the dereliction of duty convictions were, as I recall.

And basically, one of the things that happened was there was actually some burbles and they did ask for an investigation out there. It was turned over to a fully competent general surgeon, as I recall, not a cardio-thoracic surgeon because there were not that many out there, and the general surgeon took a look at the department statistics and said, you know, these are about like the national average, but did not get into the graphs to the point where specifically they split out each individual and judged that.

So that man has been disciplined. Somebody did not quite do as thorough an investigation of that as could have been done. That man has been disciplined.

Mr. **Murtha**. How long would that have been before——

Admiral **Seaton**. I can't tell you. I don't remember.

Mr. **Murtha**. Some lives could have been saved if a proper investigation had been done.

Admiral **Seaton**. That is why he was charged with dereliction of duty.

Mr. **Murtha**. All right.

Admiral Seaton. Then you got to the point as soon as—I can tell you—as soon as it was brought to my attention and I said, what is the story, I was told it has been investigated. My response was, you better do it again. They did it again and that is when they split them out the right way. That is when they started the credentials hearing and that is what brought on the credentials hearing which is part of the system looked at and his own peers said, this is not good. That is when the full hearing was held and the board of inquiry which recommended the trial of general court martial.

Mr. Murtha. What prompted the investigation in the first place? I am looking at all the hospitals that you supervise. Was it the rate of people that died or was it another doctor reporting?

Admiral Seaton. Really, the first thing was because of his colleagues out there. Some of the other doctors said, we don't think he is as capable as he is advertised to be. Okay? That is a very soft way of doing business, but that is really what precipitated the command saying, we better take a look.

Mr. Murtha. So this was really a judgment problem. It wasn't the system that was at fault. It was the individuals who were in the system who did not supervise him properly from the start. The system should have picked it up but it obviously didn't, and it was the individuals at fault rather than the system.

Admiral Seaton. It was a failure, a failure of people at a number of spots to take aggressive action on the basis of the low level warnings.

Mr. Murtha. Thank you.

Admiral Seaton. That is how I characterize it.

Mr. Murtha. Thank you, Mr. Chairman.

Mr. Chappell. Is the system such that we can be fairly assured that there aren't others out there who haven't had this kind of scrutiny who may have the same deficiencies?

Admiral Seaton. What I can tell you today is the lessons we have learned—your question might well be characterized as what have we done since then? What lessons have we learned and what is the status today?

Mr. Chappell. And what will you do about the possibility of others being out there, are you going to go back through a new screening or what?

Admiral Seaton. First of all, all credentials have to be reviewed every two years. That is Dr. Mayer's agenda item. A current screening, which is our own internal, hey, we look in certain cases, we look at 18 different things, for example, if a patient is operated on and doesn't do well, you know. Why is that? That type of a current screening.

Bringing in civilians to make the civilian corporation look. We are not saying—you can say, okay, but you are still doing it yourself. You are still looking at yourself, fine. With the new PRO people coming in, they are the people that look at it.

As Dr. Mayer said, all our hospitals are looked at by a lot of people including the JCAH, which is the hospital organization that comes and takes a look.

Every one of those places was indeed certified as running a good hospital. The credentials business has picked up over the last five years. Do I believe a Dr. Billig could get in today? I think the chances are 100 percent, 200 percent, 300 percent factor that he wouldn't.

I told you at the beginning I am not going to tell you that the one-in-a-million shot can't get through. He was deceptive. People failed along the way, and you know, when all those things happen, you get a problem.

SURVEYS AND INVESTIGATIONS STAFF REPORT ON MEDICAL READINESS

Mr. **Chappell**. Dr. Mayer, on February 3, 1986, the committee's Surveys and Investigations Staff reported its findings on medical readiness in the European and Pacific commands. I believe you have had a chance to read the S&I report.

Dr. **Mayer**. Yes, sir, I have.

Mr. **Chappell**. If I might summarize, the report states that while medical readiness has improved in Europe, there are still many shortfalls.

Dr. **Mayer**. Yes, sir.

Mr. **Chappell**. We understand you returned from Europe where you looked into medical readiness there. Would you say the S&I report is accurate?

Dr. **Mayer**. In the main, its assessment of the state of medical readiness is accurate.

Mr. **Chappell**. The major findings of this S&I report were, one, the medical support structure does not provide sufficient personnel to care for wartime casualties. Do you agree with that?

Dr. **Mayer**. Yes sir.

Mr. **Chappell**. Two, no definition of medical readiness. Therefore, requirements and capabilities cannot be measured and matched up.

Do you agree with that?

Dr. **Mayer**. No sir, I do not. With all due respect to the committee, I think I understand what they are saying.

It is not true that medical readiness isn't defined. We have a very clear idea of it. There is nothing magical about it. It is having the right number of the right kind of people, in the right place, at the right time to meet any contingency that could occur worldwide.

So it is obviously impossible to have perfect achievement. The service chiefs have a very clear idea of what medical readiness is, but they are acutely aware that a thousand different scenarios may be played out.

So it could be said by any investigating group, "Well, there are situations in which they probably are not prepared."

Mr. **Chappell**. That would be true with any unit.

Dr. **Mayer**. Of course.

Mr. **Chappell**. Of defense.

Dr. **Mayer**. Of course.

Mr. **Chappell**. Support is number 3. Support components of medical readiness are not coordinated or planned and are becoming limiting rather than enhancing factors.

Do you agree with that? I don't know what that means, but would you agree with it or not?

Dr. **Mayer**. What was the word before factors?

Mr. **Chappell**. Let me come back again. Support components of medical readiness are not coordinated or planned and are becoming limiting rather than enhancing factors.

Dr. **Mayer**. I would reverse that statement. It has been true, particularly with logistical support, that with three different systems operating in Europe, one for each Service, that that was a limiting factor. I believe that the steps we have taken, both here and in Europe to consolidate the logistical system will go a long way towards eliminating that as a limiting factor.

Similarly, if we can collectively improve our staffing in Europe, which we are all determined to do, that will cease to be a limiting factor.

Mr. **Chappell**. No. 4, command and control structure and the medical relating procedures have not changed since the bombing of the Marine Corps barracks in Beirut.

Would you comment on that?

Dr. **Mayer**. I partly agree with that, sir, but the fact is there was a decision by the Joint Chiefs of Staff to appoint a full-time flag rank command surgeon regardless of service with overall cognizance of all medical resources is a big step towards correcting what that question implies.

It has gone far enough in the view of some people. There needs to be as there has always been a need for a stronger central crisis action center that can communicate adequately with all medical elements in Europe and can juggle them as needed. While this has not been in existence for long, it has been exercised more recently because of terrorist activities. I would like to see that further improved, which should not be taken as a criticism of Europe's failure to improve itself overnight 100 percent.

Mr. McDade. Would you yield, Bill?

Mr. **Chappell**. Yes, sir.

Mr. **McDade**. Who is the flag officer, and where does he hang his hat?

Dr. **Mayer**. The European command surgeon presently is Major General Frank Ledford, an Army Major General who until not long ago was the commander of what is called by the Army the 7th Medical Command. In effect, he is the Army Chief Surgeon for Europe.

In the past, the senior medical officer in Europe, regardless of service, had as an additional duty, the job as command surgeon. However, he only had one officer in the European command headquarters which is in Stuttgart to do the planning and all the communicating, so it was a kind of gesture.

Actually, when General Becker was commander of the 7th Command he had the additional command duty as the European command surgeon. But there was no resource——

Mr. **McDade**. Was there a General Greendike there?

Dr. **Mayer**. Yes, I seem to remember there was.

Mr. **McDade**. Where is he now?

Dr. **Mayer**. I can't say with certainty. I believe he is in the Washington area.

Mr. **McDade**. How long was he there?

Dr. MAYER. I don't know. General Greendike's entire tour of duty in Europe, he was the command surgeon from the 1st of February until last week.

Mr. McDADE. First of February until when?

Dr. MAYER. Last week.

Mr. McDADE. Thank you, Mr. Chairman.

Mr. MURTHA. Could I ask a question about the readiness over there, Mr. Chairman?

Mr. CHAPPELL. Yes.

Mr. MURTHA. I was over in Frankfurt the day after the Beirut bombing, and then went on to Beirut. I thought that whole thing went virtually well. I know the only criticism I remember was that we might have sent some—the Israelis offered their hospital and it was a decision to send the people to Frankfurt and nobody died because they went to Europe.

That was fine.

Dr. MAYER. Right.

Mr. MURTHA. Did you learn any lessons from that?

Dr. MAYER. Yes indeed, we did. The major reason we couldn't use the Israeli offer of support which was very welcome and which was a heartfelt, honest proposal to treat people in hospitals that are every bit as good as most of the hospitals in this country, was because there was no communication system in place, no previous agreement in writing with them; there was no way safely to fly aircraft over heavily armed borders without endangering the lives of everybody aboard and by the time they made their offer we had arranged to take care of the patients.

It is true that the performance of medical staff from the Marine Corps, part of the Navy, the Navy afloat, the Air Force and the Army was all superb. We did learn from the whole thing that there was a need for the kind of rapid response teams that we now have in place all over Europe.

The Navy had offshore in Beirut a couple of those teams and they helped, but it was clear that there was some confusion about medical evacuation. Thanks be to God it did not result in anybody's being desperately hurt.

There were arguments among the services at a low staff level as to well, the patient should have been sent here instead of there, those kinds of things. They are almost private arguments.

We have a great hospital. We should get the patients, you know.

And it could be very dangerous were that situation to be continued because we only had to deal with about 100 casualties, the rest were all dead. If there had been two or three times that many, such confusion could have created real problems for patients.

Everybody is acutely aware of that now.

General Dick Lawson and General Bernie Rogers are really into the whole issue of somebody in charge of good planning, of rapid response teams. I don't pretend that will solve all our readiness problems, but it is a hell of a step forward.

Mr. CHAPPELL. Doctor, the fifth deficiency, staffing requirements remain undefined. Would you agree with that?

Dr. MAYER. To limited extent, I do agree with that and that is what I was talking about earlier with respect to this medical planning module. The actual determination of detailed personnel requirements is very complicated and the system for determining those requirements has now been rectified. It isn't refined enough to suit any of us yet, but the system is in place, the Services are beginning now to make their personnel requirement determinations in a consistent way, and I fully believe that we will solve that problem in the foreseeable future.

Mr. **Chappell.** There are a number of questions we want to ask about these major findings and we will start on those in just a moment.

From February 1 to last week—is that a long period of duty or a short period of duty?

Dr. **Mayer.** That is a very short period of duty, sir.

Mr. **Chappell.** General Greendike was removed just last week; is that correct?

Dr. **Mayer.** As I understand it, yes sir.

Mr. **Chappell.** Do you know why he was removed?

Dr. **Mayer.** I was not part of the decision to remove General Greendike. I played no role in it whatever. It was purely a command decision as I understand it taken by the Secretary and by General Rogers after consultation with the Secretary. According to the statement I read issued by the official Pentagon spokesman it was because the Secretary had lost confidence in General Greendike's ability to perform that duty.

Mr. **Chappell.** And General Ledford has replaced him?

Dr. **Mayer.** Yes sir, at least temporarily.

Mr. **McDade.** The current Services medical force structures don't provide sufficient personnel authorizations and units to supply an adequate level of medical support either overseas or in the United States in the event of war. Only four out of ten casualties in Europe can adequately be cared for with current resources. The Korean theater medical support is much more severe.

DOD plans to spend over $3 billion to procure deployable medical systems and hospital ships. To staff this expanded structure, approximately 45,000 additional health care personnel will need to be recruited, trained and retained.

Considering the trouble the Services are currently having with recruiting and retaining health care personnel, how does the Department plan to meet the 45,000 shortfall?

Dr. **Mayer.** First, I have to say that we are not having a problem recruiting. We are up to our total authorized strength in physicians. We are below authorized strength in nurses and in hospital corpsmen, but our total personnel capability is a combination of what is in the active component and what is in the reserve. On active duty we have all the people that we are currently authorized by Service regulation to have, but in the reserve there are serious shortfalls. We are embarking on new programs to attract into the reserve particularly those specialists that are necessary in warfare so that we can increase our reserve strength.

We are also thinking of new ways to interest physicians, corpsmen and nurses in this vital activity. The thrust of what you were reading from I believe was that we probably ought to stop buying new equipment until we have plenty of people. Well, I can stockpile the equipment. I cannot stockpile the people.

Mr. McDade. It was also a question of what kind of specialties you have in the medical professions. Have you got enough surgeons?

Dr. Mayer. We do not. We have enough on active duty today to take care of our huge peacetime health mission. We do not have enough were we to go into a major war.

Mr. McDade. What was premised on, Europe or the Korean theater?

Dr. Mayer. Essentially both. If both were engaged, we are way short.

Mr. McDade. We are now putting a requirement for 45,000 more people on, not all doctors, of course, if we spend this $3 billion?

Dr. Mayer. No, sir. The acquisition of the deployable medical equipment makes it possible for us to have in place in a variety of locations overseas the equipment and hospital structures that some of the reserve units from back here would have to use in case of a major war.

It is somewhat wasteful to stockpile anything because if you don't use it, it eventually deteriorates. This is why I want to use the hospital ships cruising in the area of possible deployment, but we can successfully stockpile and in my judgment we must not only stockpile, but place overseas hospital assemblages in almost all the areas where we might need them.

Mr. McDade. I think we understand that, but the question is having the right kind of people to make the system work so that the statement is available, that is the problem, isn't it?

Dr. Mayer. Of course it is. In the early phases of a war, particularly a limited war, we can take every doctor who is a surgeon from Bethesda, from Malcom Grow, from Walter Reed, and order them overnight into the theater if the lives of Americans depend in our doing that.

Mr. McDade. Is that what you would do?

Dr. Mayer. Exactly.

Mr. McDade. We talked about a serious shortfall in both the Korean and European theater.

Dr. Mayer. But if we have a multi-front war, it is not just surgeons, it is weapons and ammunition and transport.

Mr. McDade. We are talking about your shop. If you did that, you would have enough personnel to cover both theaters with surgeons?

Dr. Mayer. I can't say with confidence that we would have enough, no sir.

Mr. McDade. What about Korea alone?

Dr. Mayer. No; I don't believe we would have enough to cover Korea just overnight. Korea is a long trip.

Mr. McDade. We will give you a week. Let's take a week.

Dr. Mayer. We can cover reasonably well the number of surgeons needed to use the operating rooms that we have in place over there. However, I believe we should have more operating rooms and more surgical specialists, not just general surgeons, but thoracic surgeons and brain surgeons than we have now.

Mr. McDade. Put into the record the numbers of the various kinds of doctors you would need and other specialties to be comfortable with medical readiness.

[The information follows:]

The following information represents the best estimate of the Department's total wartime requirements for physicians and selected physician specialties, nurses, dentists and enlisted personnel. This information does not reflect the full use by each of the Services of the medical planning module (MPM) to determine workload-based personnel requirements, nor does it incorporate the latest enhancements that have been made to the MPM at the direction of the Assistant Secretary of Defense for Health Affairs. Estimates of wartime health personnel requirements are being refined through the standardized use of the MPM by the Services as they develop their FY 1988–1992 Program Objective Memoranda (POM), as directed by the Assistant Secretary. The refined estimates will be evaluated by the Office of the Secretary of Defense as part of the summer 1986 review of the Service's POM submissions.

Personnel category:	*Total Wartime Requirement*
General Surgeons	4,000
Orthopedic Surgeons	2,400
Other Surgeons	2,400
Anesthesiologists	1,300
Psychiatrists	1,000
Radiologists	900
Other Medical Specialties	17,000
Total All Physicians	29,000
Nurses	46,400
Dentists	8,700
Health Care Enlisted Personnel	259,000

Dr. MAYER. I would like to make a caveat. The number that we will put in at this point does not represent the latest state of the art in determining those requirements. They are the requirements that we believe to be true as of now.

As we put our medical planning module into effect, we will be able to refine those numbers far more precisely, but I do not believe that there will be any reduction in what we believe our requirements to be.

Mr. MCDADE. Since the eighties, we have been told that more hospital beds would mean more capability and that there was little danger of buying more hospital beds than the Services could support.

Considering the staffing problems, supply and transportation needs of the additional hospital beds needed by the Services, do you still believe that there is little danger that hospital beds will exceed the staffing and supply availability of the services?

Dr. MAYER. Yes. We have on order or in hand about 48 to 50 percent of our, as accurately as we can determine, requirements for deployable medical gear. By the end of 1987, we will have on hand or ordered and paid for 70 percent of the deployable medical gear that we believe we need. That means in practical terms that two years later by 1989 we will have reached that.

Clearly we are trying to match up the improvement in medical materiel with the improvement in medical personnel, and I believe that they will come together in the 1987 to 1989 time frame and that we will at that point have made sufficient improvements in our reserve recruitment and perhaps revisions in our medical ceilings that can be bought by everybody that we will not get out of sync.

So I think it is very dangerous at this point to say that because we don't have all those doctors in hand now that we shouldn't buy more deployable medical gear. It will take five years to get the gear, and it is two years later before we have it all.

Mr. **McDade**. The S&I staff discovered that 70 percent of the DEPMEDs will already have been purchased before support requirements have been determined.

Dr. **Mayer**. I said that by the end of 1987 we will have ordered or paid for and partly have in hand 70 percent of our requirement. It will take two more years before we have the materiel because it takes two years to get it.

Mr. **McDade**. To order the material?

Dr. **Mayer**. After we order it, it takes two years to get it, and I do not believe that the team can really support the idea that we can't keep up with our improved personnel recruitment with the tremendous delay in the materiel procurement.

Mr. **McDade**. Tell us the total number of DEPMEDs you plan to have purchased by fiscal year 1991 and what the staffing and medical requirements are for these units, and you can furnish that for the record.

[The information follows:]

The Department plans to purchase a total of 219 Deployable Medical Systems (DEPMEDS) by FY 1991. The staffing requirements for these units are contained in the Department's FY 1991 personnel requirements program for wartime deployed forces, which is summarized as follows:

Personnel Category:	*Deployed Force Requirements*
Physicians	15,800
Nurses	26,700
Enlisted Personnel	169,700

The Department's wartime personnel requirements programs are aggregated by geographic location, to include theaters of operation, the continental United States (CONUS) and rest-of-world, in order to assure adequate review and oversight of the total wartime medical force requirement, together with the overall personnel assets programmed to be available to satisfy that requirement. Program data is not fragmented into individual units or unit types, such as deployable systems, but rather is structured to disclose management-level information for evaluating the resources required and available for the deployed forces as well as the CONUS base.

Mr. **Chappell**. Mr. Livingston.

Mr. **Livingston**. I think it is ironic to note how much fun you are having. On the one hand, we tell you to cut back with Gramm-Rudman-Hollings, on the other we criticize you for not being prepared for all fronts around the world, and then we hit you with the Billig case.

All of us appreciate the difficult job you are doing. We just want to make your job easier and that is why I want to urge you to consider my CHAMPUS program.

Dr. **Mayer**. I do appreciate keeping things more interesting like this.

Mr. **Chappell**. Mr. Secretary, I watched the NBC show last night. You have stated that military health care is excellent. I notice that you also refused the invitation to appear on that——

Dr. **Mayer**. That is an absolute calumny. I was willing in my innocence to allow them to tape an interview of over an hour and a half with me. This is not just within the last week. They have been bubbling this for the last couple of years. They did use ten seconds of that hour and a half to make a point which I was not making at all and I, therefore, will not do taped television interviews anymore.

Mr. **Chappell**. I fell into the same trap only I got nine seconds out of about forty minutes. I know the feeling. That is one of the lessons we learn, isn't it?

Dr. **Mayer**. My chief of quality assurance, who is a splendid, very superior, ethical doctor, was interviewed by them for over an hour. All they played of that was a pause that he made for ten seconds while he was thinking through the answer to a question that was one of those trap questions.

Of his whole interview, that is all they used, so it made him look just stupid.

Mr. **Chappell**. Which is one of the talents of the press.

HEALTH DATA INSTITUTE STUDY

What was the purpose of the Health Data Institute study?

Dr. **Mayer**. The Health Data Institute is an allegedly and actually very reliable firm that does health data analysis. We entered into a contract with them several years ago to use the computerized cover sheets on some of our medical charts to see if they could detect just by a computer analysis of these sheets deviations from standards of care even accepting the fact that there are no published absolute standards of care.

I cannot tell you, if you go in to have your gall bladder out, what your chances are of having a stitch infection, what your chances are of having the tie-off come out, what your chances of peritonitis are.

We have some idea of those standards. We know sort of rule of thumb if you are doing appendectomies, you shouldn't have very many cases of peritonitis. You will have some. You shouldn't have many wound infections. You will have some.

What is the norm? There are no national norms, so we asked the Health Data Institute to take all our cover sheets and look at some very simple things.

One of them was peritoneal tears. When you deliver a baby, you frequently make a small cut to enlarge the opening so that the baby can emerge without doing damage to the mother. Some doctors argue that you shouldn't do that, that nature will make the cut. There is no standard that says in every hundred cases of deliveries of babies you get six or three cuts or five Class 4's and two Class 3's and one Class 2. It is that elaborate.

So Health Data Institute took a whole bunch of our cover sheets, it happended to be from an Air Force hospital. We wanted to do them across the services and they assured us they could.

Anyway, they ran out of money and they ran out of people and they said, "We can't do this completely so we are going to focus on the Air Force." They found an Air Force teaching hospital where the guy teaching obstetrics said, "I don't care if the cut you made is a sixteenth of an inch. You record that as a tear."

In today's malpractice atmosphere, if a baby is delivered at a private hospital and the episiotomy is extended a quarter of an inch, I guarantee that the doctor will never put that on the cover sheets, because of patients get hold of their records, and see that, he would be sued.

So they are not recorded mostly. Also, if you don't have a tough teaching chief saying, "You are going to record every one of those things," the residents won't be that conscientious about it. They will sew them up. Mostly there is no damage done. The majority feel it is academic that it is a tear.

So they found a hospital with a high incidence of tears and they came running in, not to me, not to the Air Force. They came to the Deputy Secretary of Defense based on the fact that the guy from the company knew him from some time back and said, "You have a problem and this is going to hit the papers."

We sent independent experts there from the University of Kansas, and the obstetrician said, "No, the incidence of tears in the hospitals, when you analyze how they got the data from the computer sheets, is not significantly different than what we expect in a well-run teaching hospital."

What the guy on TV didn't say was that at some of our hospitals have no tears at all. That is impossible, but using the cover sheets they had none at all. They said, "We are going to fix this for you. We have this proposal to do a really big contract," and we said until we straighten out our cover sheets, which are derived from written notes, transcribed by a clerk and punched into a computer, until we straighten out our data collection to make it usable by computer analysis, we don't want to pursue this.

We extended the contract three times because they said they couldn't do it with the money we originally agreed to.

However, a deal is a deal, and after extending this sole-source contract three times, I said, "No, we are not going any further with this."

Mr. CHAPPELL. You cancelled it?

Dr. MAYER. I did not. It had been expired for months. So for these people to appear on national TV and indicate that the Department of Defense didn't like their results and we fired them is an absolute lie. What more can I say?

MEDICAL READINESS

Mr. CHAPPELL. I believe we can even understand that.

Let me ask one more question, and I do this simply for clarification.

In your testimony before the Senate in mid-September and in an article in the 1 January issue of U.S. Medicine, you stated that if the United States were involved in a conventional war in Europe today, scarcely three out of ten could be cared for.

In the House S&I report, you are reported to have said four out of ten, which is in and of itself a variation. Does that mean we are getting better?

Dr. MAYER. Yes sir.

Mr. CHAPPELL. Is that the reason that there is a variance, they are trying to make a play on that?

Dr. MAYER. Yes.

Mr. CHAPPELL. You are saying yes, it was three or four in the report because the situation is better; is that correct?

Dr. Mayer. That is correct, but I hereby declare I will not play that numbers game anyone because it is too misleading. I could put it this way: When I came to the Pentagon, my predecessor and the predecessors of these gentlemen said based on the amount of equipment and surgeons we have, we can take care of one out of ten.

The next year we were up to two out of ten. That is a 100 percent improvement.

I don't want to play that game. We have 30 percent of the operating rooms we think we need in Europe in the case of a big general war, a two-front war.

We are not completely up, but I think it is so misleading to the public to have to go on with this, well, if six of your kids out of ten go to war, six are going to lay out there and bleed to death, that is not right.

So I am not going to do that anymore.

MALPRACTICE RATE

Mr. Chappell. How does the Air Force malpractice rate compare with the civilian rate last year?

General Chesney. Between 1980 and 1984, our malpractice rate actually went down about 13 percent. We see something like 17 million outpatients a year. We admit 300,000 patients, deliver 40,000 babies, and from that we have about 265 average malpractice claims a year.

At the same time, the civilian malpractice claims went up about 114 percent.

Last year we were up for the first time, up to about 299 incidents resulting in 378 malpractice claims.

Mr. Chappell. How does it compare in percentages?

General Chesney. We have a 42 percent lower malpractice rate than the civilian rate even counting in the people who cannot sue under the Ferres Doctrine. In actual numbers 22.5 percent per 100 civilian physicians had a malpractice claim against them last year, versus 9.9 percent per 100 of Air Force physicians.

Mr. Chappell. Is that true across the board?

General Becker. There is another figure that might be worthwhile for the record: 6.4 claims per hundred physicians in 1983 and 1984 for the military services and in the civilian sector, 16.5 claims per hundred. Now that, of course one must consider that part of the patients, the Army doctors treat in the Army can't sue, but even taking that into consideration, it is still—let's say we double the military one, that would be 12.8 compared to 16.5.

Dr. Mayer. You can't double. That is misleading. We have 10 million beneficiaries.

Mr. Chappell. You are talking about non-service people?

Dr. Mayer. I am talking about the total patients, ten million people. Only two million can't sue us. When we take the eight million who can and adjust mathematically to assume that all ten million could, we are still way below half of what the malpractice rate is in the civilian community.

One thing I would like to add, most civilian malpractice claims are never filed publicly. Most never go to court. Most never result in a judgment. Mr. Dicks, I think, was talking about the dollar amount of the claims filed against Madigan. You must know that there are lawyers who live in Takoma who advertise in the base newspaper and in public newspapers. "You have any complaints about your medical care, come to us, we will sue the government for you," and that a dollar amount that is sued for is no reflection whatever of the magnitude of the problem or of what the final judgment, if any, will be. Even allowing for all that, the fact that every one of our claims is a matter of public record and that most of the claims in the civilian community are not, we are still less than half.

So that is why I no longer make any reservations. I used to run the Department of Health in the State of California. I have been in private practice. I have been many years in the Service, and I can tell you without any reservation that I would go to Bethesda or Walter Reed or Malcolm Grow in preference to any hospital in Washington anytime and I do.

We have an occasional guy who gets so tired that he makes an error. Sure we have an occasional guy that isn't as conscientious as he should be, but by and large you are safer in my judgment in a military hospital than any hospital on earth.

Mr. **Chappell**. Very good statement.

First of all, you service people seem to have been kind of left out of the show and I know you are disappointed. Just so that you won't be completely left out, I am going to put the questions that haven't been asked and answered so far, we will put them in the record so you can answer them at your leisure.

BENEFICIARY CARE

Let me ask one general question. How are we going to decide how we can handle the readiness of our Services, give our doctors the broad experience which you want them to have in order to encourage them to come into the Service and stay or be a part of the Service or maybe stay and prepare themselves for the civilian sector, and at the same time—take care of all of the non-military people—how are we going to find a way to do that?

Are we going to lop off some of the care which we give, is that what you recommend, or is the sole answer to get more and better people into the medical profession in the Services?

Dr. **Mayer**. Neither of those alternatives is necessarily the answer. We will not lop off any services for people in our hospitals, but under the law today, if a dependent or a retired person or the family of that retired person walks up to Bethesda Naval Hospital or is carried in needing a certain kind of surgery and we don't have that kind of surgery or we don't have a bed on that ward or an operating room capable of delivering that, then that patient has to go to a civilian hospital, but there is no guarantee.

Mr. **Chappell**. Who pays for that?

Dr. **Mayer**. CHAMPUS, if it is a civilian. If it is a military person, we can't care for at one of our hospitals, we can refer him to a private hospital and the Service pays for it out of supplemental funds.

Mr. **Chappell**. How about dependents?

Dr. **Mayer**. With dependents, CHAMPUS pays for it. In the hospital the dependent pays nothing except $7.00 a day for food, which is pretty cheap. The retiree in the hopsital, however, would be paying 25 percent of the billed charges in that hospital and if he is in intensive care, you are talking about a thousand bucks a day.

There is no retired member that I know of that can afford that for long. The solution is not just hire a bunch more doctors. The solution is certainly not to lop off health care for non-active duty beneficiaries.

If we can enter into a partnership relationship with the really fine, high-quality, both profit and non-profit major corporations that are beginning to dominate health delivery in the United States today, we think based on our conversations with them that they can provide a service so much more attractive to our beneficiaries that many will elect to go there for minor things at least.

We think we can write in a requirement that if it is something major, the contractor must send them to our hospitals and if our hospital occupancy rate begins to erode, we have got to have an ongoing relationship with whomever we contract with to make sure that more patients are steered into our hospitals.

It is going to be very complicated to establish that kind of arrangement. That is why we don't yet have a firm proposal. That is why it is very tempting to try a pilot project, but I don't want to pilot project this thing to death.

Mr. **Chappell**. I certainly agree with you on that. By the way, although you are smoking a pipe and I am smoking a cigar, I see we are at least close together on some of those things. We at least keep the pipe tobacco and the cigars in the commissaries whether we take the cigarettes out or not.

General **Becker**. You have to remember what the Surgeon General writes on the packages.

Mr. **Chappell**. Have you finished your statement?

Dr. **Mayer**. Yes sir.

It is so complicated it is hard to give a clear-cut, simple answer, but I think that we have the makings for a solution. We will absolutely refuse to reduce health care in any way to the people who are entitled to it. We may have to shift the way we do it somewhat, but we will still let the dependent decide if she wants to come to our hospital or a contractor or go to a private place and pay under the current CHAMPUS system.

Mr. **Chappell**. Do you think it is doable? I am talking about dependent care?

Admiral **Seaton**. Yes sir.

In my statement I said, we support his efforts to get a national thing to supplement, alternate with CHAMPUS, replace it, whatever.

Mr. **Chappell**. Has there been any study about that? It would not be practical, would it, to bring in civilian practitioners from the private sector where they have the surgical rooms, operating rooms and so forth?

Dr. **Mayer**. That is both possible and it is currently done. It is just that we can go much further with that sort of thing when it is appropriate, but yes, we have the complete capability for doing that now. It can be a little expensive, but it is actually cheaper than sending a patient out in the free market to find any doctor they can to do a surgical operation.

We have no control over those doctors, no quality assurance. We don't even know who the doctor is until he sends us a bill. You can't do a $1,700,000,000 business that way.

Mr. **Chappell.** General.

General **Becker.** I wasn't clear on your question. I think you asked was the proposal that Dr. Mayer made workable and doable, and I agree. I think though that we must maintain the military hospital systems with the training programs that keep our wartime readiness skills sharp.

Mr. **Chappell.** That was going to be my next question.

General **Becker.** And that certainly the proposals to take care of those that are now taken care of by CHAMPUS and maybe some of our overload in a few places can be taken care of by contract and what not. I do sense that there may be some concern among the beneficiaries when we change from CHAMPUS to another system.

There has been a lot of grumbling about CHAMPUS, but at least they had free choice——

Dr. **Mayer.** They still will.

General **Becker.** It depends on how we do it.

Dr. **Mayer.** You can't change the law.

General **Becker.** What I am saying is if the new system limits freedom of choice, then there could be some concern on the part of the beneficiaries, is my feeling from talking to a lot of them.

Dr. **Mayer.** Sure, and where beneficiaries have been led mistakenly to believe that somehow we are going to limit their freedom of choice, they are concerned but there is no intention to limit freedom of choice. As a matter of fact, freedom of choice is strictly limited now. If you are a dependent and you live within 40 miles of a military hospital, you have no choice, you must go to that military hospital whether you like it or not.

If we can't do it there, we give you a certificate and then you can buy it on your own, but you pay. That is inpatient care. We have no control over outpatient care and that can run 80 or 100 bucks for an outpatient, and there are even ophthalmologists who are doing laser surgery on the eyeball as an outpatient for 5,000 bucks.

We have no control over that. We are not being adequate shepherds of the public treasury when we cannot control the money that is being spent because whatever we spend that way and however far CHAMPUS goes up, and CHAMPUS costs go up faster than other health care costs and health care costs go up faster than the cost of living.

When we run out of money in CHAMPUS, who pays for it? These guys do. We are going to do CHAMPUS in a businesslike way instead of the open-ended loose way it is now.

This is a carryover from the cost-plus contracts of World War II except that the contracting agent is Joe Smith, Sergeant Joe Smith's wife. That can't be permitted. So we have to find a way.

We know that with or without Gramm-Rudman there is just so much money that can be diverted to health care in the armed services. We here think it is the most important thing in the world, but it is only one support factor for the troops and their families.

Mr. **Chappell**. Have you prioritized how the committee can best help you accomplish your readiness goals and the other goals that you have? Have you tried to prioritize that?

Admiral **Seaton**. I will just give you a generalization. To continue your support of the procurement of the deployable medical systems would be number one and number two, you heard me discuss the fact that I don't think we are going to get a significant growth in resources and we do need to reallocate. When we do that we ask that you be understanding and to support any judicious reallocation from one district to another, from one hospital to another, and not in essence stonewall us from being able to do that.

We have places overseas that need a couple of obstetricians because when you are in Okinawa, you don't want to go on CHAMPUS in the civilian world and now we are prevented from putting the extra ones in there because you have to take them from someplace and we are getting a lot of heat from up here.

Mr. **Chappell**. Yes.

General **Chesney**. We need continued support in our readiness bill as has been in the program in the past. If we change that, we are in trouble.

We need support in the Korean Peninsula for Kim hae Hospital because we are 16, if you want to go to percentages, 16 percent short in beds in Korea. We need help in Korea.

We need some protection against Gramm-Rudman or other cuts because if more money is taken from us, the Air Force will have to decrease patient care.

Dr. **Mayer**. You will end up paying for it anyway because if they go out on CHAMPUS and CHAMPUS runs out of money, I will charge the Air Force.

General **Chesney**. So it is the dog chasing his tail.

General **Becker**. I agree that the first priority is to support the deployable medical equipment. It is being purchased now. It does not come on line for two years. The reserve units in the Army are in good shape now. They need surgical specialists and there is another place that—we don't have the proposal before you yet, but we may need support to entice those people into the reserves, that is surgeons, orthopedic surgeons, nurse anesthetists and OR nurses. That is our biggest hurdle.

Dr. **Mayer**. As the oldest man present, I get the last word.

Mr. **Chappell**. Yes.

Dr. **Mayer**. The biggest help we need from you is support of the budget that we have submitted. We have cut and pared and we think this is the minimum that we need to continue a gradual, reasonable buildup of our medical capability.

Mind you, it is a five-year plan. It really won't be in hand until 1993. I don't know what Kim Il Sung and his associates will do or what the East Bloc will do, but we can't afford to play that game with the lives of Americans.

So for this budget year what we need help with from you is the support of our budget as we have submitted it, but that is a short-term view.

A longer-term view is we need a thoughtful hearing on increases in the medical ceiling which is not just a budget problem. We will need better control of what resources we are given.

I am completely confident that the four of us senior doctors in the Department of Defense, if they give us a budget, can manage it.

What I said before is we don't have a budget. Each of these gentleman has to fight for his piece of his service's budget and there is no guarantee that late in the year some of that won't be eroded and just slipped until the next year and slipped until the next year. That is happening for five years.

Mr. **Chappell**. Are you asking for legislation in that area?

Dr. **Mayer**. I am not authorized to ask for that legislation, but in my judgment I don't see how we can manage this system if we can't manage our resources. I think the four of us have the capability of doing that.

Mr. **Chappell**. All of you agree with that?

General **Chesney**. No sir.

Admiral **Seaton**. No sir.

Dr. **Mayer**. No, don't ask that. They will all be in trouble.

Admiral **Seaton**. You broke the code.

Mr. **Chappell**. You have the last word.

Dr. **Mayer**. That is right, so you shouldn't ask them anything.

Mr. **Chappell**. Let me say, Mr. Secretary, the nation is grateful to you for the tremendous job you do. We thank you.

Dr. **Mayer**. Thank you, Mr. Chairman.

Mr. **Chappell**. At this point we will insert the memorandum to the Chairman of the House Appropriations Committee, summarizing the report on medical readiness in the U.S. European and Pacific Commands that was done by the Surveys and Investigation Staff. The entire Surveys and Investigation Staff report will appear at the end of the record. Please answer the rest of the committee questions on medical readiness for the record.

[Clerk's note.—The material and questions submitted for the record and the answers thereto follow. See page 744 for the complete report.]

NOT FOR RELEASE UNTIL AUTHORIZED BY THE COMMITTEE

February 3, 1986

MEMORANDUM FOR THE CHAIRMAN

RE: Medical Readiness in the
U.S. European and Pacific Commands

The Investigative Staff has completed a review of medical readiness in the U.S. European and Pacific Commands. The Joint Chiefs of Staff denied access to theater war plans which prevented an assessment of medical support requirement computations and the extent of coordination between the services in fulfilling these requirements.

According to Department of Defense (DOD) prepared documents, the services' current medical force structures do not provide sufficient personnel authorizations and units to supply an adequate level of medical support either overseas or in the United States in the event of war. The Assistant Secretary (Health Affairs) told the Investigative Staff that four out of ten casualties in Europe can adequately be cared for with current resources, but he said Korean theater medical support was much worse.

In recent years, DOD attributed deficiencies in medical readiness almost exclusively to shortfalls in medical equipment. The term "hospital beds" evolved as the yardstick for measuring the shortfall. More hospital beds would equal more capability, according to DOD officials. In FY 1983, DOD embarked on a $3 billion program to procure enough contingency hospital bed assemblages to meet projected requirements. Approximately 58 percent of this equipment has been funded as of FY 1985 at a cost of about $1.3 billion. The remainder is programmed through FY 1991 at an estimated cost of $1.7 billion. Shortfalls in staffing and supply requirements are beginning to emerge as limiting factors. DOD has not calculated a "break even point" for this program; therefore, the exact point at which more hospital beds will no longer mean more capability is not known. One high level DOD official suggested that the program is already near that point.

DOD is experiencing difficulties determining support requirements for the hospital assemblages it is procuring. The problems engendered by the services' different methods of predicting wartime requirements--particularly medical manpower requirements--have proven "intractable" according to one DOD report.

This report also stated that DOD's computerized system for determining requirements--Medical Planning Module--embodies the correct logic for predicting the full range of wartime medical requirements in a combat theater. The system has undergone 24 major enhancements and is still being improved. The Secretary of Defense has directed that, beginning with the FY 1988-92 POM, this system be used to predict all work related wartime medical requirements. Accordingly, support requirements for the new contingency hospitals will first be determined in FY 1988; by that time 70 percent of this equipment will already have been purchased.

Based on current estimates, shortfalls exist in physicians, nurses, corpsmen, perishable supplies and Host Nation Support. A study to determine the Military Airlift Command's ability to meet evacuation requirements was initiated in February 1983 and is still incomplete. In short, DOD's program to improve medical readiness appears to be out of balance.

The Joint Chiefs of Staff have approved the establishment of a full time two star slot for the European Command Surgeon. This is a step in the right direction, but EUCOM's procedures for coordinating medical responses to casualties resulting from terrorist attacks remain flawed. For Europe, procedures to determine destination hospitals for casualties have changed little since the Beirut bombing. In addition, two C-9A Nightingale aircraft drafted by EUCOM for administrative flights should be reassigned to aeromedical evacuation support considering the fact that they are specifically configured for such duties. Dedicating these aircraft to medical support would enhance their availability in the event of terrorist attacks.

The Committee may wish to consider halting or sharply reducing the funding of contingency hospital equipment until, (1) DOD's computerized planning system (Medical Planning Module) to establish and evaluate requirements is fully refined and implemented; (2) minimum support capabilities (especially surgeons) are identified and obtained for the contingency hospital equipment already funded; and (3) DOD's budget justifications are improved so as to identify the elements of medical readiness and more accurately estimate the impact of specific expenditures on the services ability to provide wartime medical support.

Respectfully submitted,

R. W. Vandergrift, Jr.
Acting Chief of the Surveys
and Investigations Staff
House Committee on Appropriations

SERVICE DETERMINATION OF STAFFING REQUIREMENTS

QUESTION. Each Service uses a different standard for staffing. For example, the Army requires 68 physicians per 1,000 combat zone beds, the Air Force requires 112 per 1,000 combat zone beds, and the Navy requires 135 positions per 1,000 combat zone beds. Why do the Services have different personnel to patient ratios in their staffing requirements?

OSD ANSWER. Historically, the Services have used different philosophies and methodologies to determine wartime medical manpower requirements. This practice caused significant differences when requirements were reduced by common denominators. In order to deal with those differences, in April of 1985, I requested the Chairman of the Joint Chiefs of Staff to enhance the capabilities of the Medical Planning Module (MPM). This effort was coordinated with the Services and was completed in January 1986. To ensure the Services use a common methodology and to ensure manpower requirements are developed in a consistent manner to the maximum extent possible, the Services have been directed to use the MPM in determining manpower requirements.

QUESTION. Isn't it true that all the Services have different definitions of what the combat zone is in Europe? For example, couldn't the Air Force consider one zone a communications zone while the Army considers it a combat zone? Wouldn't this affect staffing of the hospital beds? What is being done to coordinate the designation of these zones so that the Services provide identical staffing for like areas?

OSD ANSWER. The concept of combat and communication zones is an esoteric principle adapted from Army doctrine and employed by service medical planners, It is less than perfect but serves as a method of distinguishing between areas where basic, life-saving care is provided and areas where more involved, time-consuming treatment is available. Combat zone hospitals are "flow-through" facilities where resuscitative care is provided and preparation for further evacuation is made. Beds in these facilities must be kept empty to receive incoming wounded. Patients remain in these facilities for the least possible time. If the operating room suite, the recovery rooms, and the intensive care floor of a large hospital could be removed and made mobile, it would resemble a combat zone hospital. Combat zone facilities are Spartan; they have no medical wards for extensive recovery of patients; no physical therapy and no convalescent care. Staffing for combat zone hospitals reflects the mission; surgically intense and highly functional. Though there is overlap, the combat and communications zones are different for each service. The level of combat is the distinguishing factor. The combat zone for Navy facilities will be near Marine Corps or fleet operating areas, in the Mediterranean for example, while the combat zone for Army units will likely be in central Europe. Similarly, an area that might be communications zone for Army operations will be where the Air Force is in combat. The Deployable Medical System (DEPMEDS) will standardize major components and equipment in the respective zone.

Question. Please provide the Committee with the current medical staffing levels for the European and Pacific Command. Break this down by specialty and by nursing and corpsmen staff.

Army Answer. The following represents the current medical staffing levels for the European and Pacific Command, broken down by physician specialty and nursing and corpsmen requirements.

AUTHORIZED—PEACETIME CARE

Mos.	Description	Europe	Pacific
	Physicians:		
60A	Operational medicine	22	
60B	Nuclear medicine	2	
60C	Prev. med. off	8	2
60E	Gen. med. off	37	14
60F	Pulmonary medicine	2	
60G	Gastroenterologist	2	
60H	Cardiologist	4	
60J	Obstetrician/GYN	39	4
60K	Urologist	6	1
60L	Dermatologist	7	1
60M	Allergy/Immunology	3	
60N	Anesthesiologist	10	2
60P	Pediatrics	42	3
60Q	Pediatric cardiology	1	
60S	Ophthalmologist	9	1
60T	Otorhinolaryngologist	9	1
60U	Child psychiarty	5	1
60V	Neurologist	5	1
60W	Psychiatrist	21	2
60Z	Hemotology	1	
61A	Nephrology	1	
61B	Oncology	1	
61F	Internist	48	6
61H	Family physician	58	9
61J	General surgeon	39	4
61K	Thoracic surgeon	3	
61L	Plastic surgery	2	
61M	Orthopedic surgeon	23	3
61N	Flight surgeon	2	1
61P	Physical medicine	1	
61R	Diagnostic radiology		2
61S	Radiologist	18	
61U	Pathologist	17	2
61Z	Neurosurgeon	3	
62A	Emergency medicine	7	
	Total physicians	458	60
	Nurses	525	100
	Enlisted	4,986	1,034

Navy Answer. The following represents the fiscal year 1986 authorized peacetime billets for Navy.

NOBC	Description	Europe	Pacific/[1]
	Physicians:		
2XXX	Non specific designator hlth care management	6	12
9421	Commanding officer	1	1
0008	Reg. hlth care coord	0	1
0016	Chief of Clinical Service	0	0

NOBC	Description	Europe	Pacific/[1]
0020	Chief of Service	4	8
0030	Medical research off	2	1
0045	Flight surgeon	0	7
0048	Md. medical dept	0	1
0051	Emerg. med. specialist	0	1
0070	Primary care med. off	16	59
0090	Undersea medicine	0	4
0101	Internist	3	13
0105	Pediatrican	2	16
0108	Family practitioner	3	12
0111	Dermatologist	0	4
0115	Psychiatrist	2	9
0118	Anesthesiologist	1	12
0121	Neuologist	0	3
0131	Radiologist (diagnostic)	1	6
0150	Pathologist (anatomical)	1	2
0154	Pathologist (anat and clin)	2	7
0160	Preventive med. off	3	1
0163	Prev. med. off. (aerospace)	2	1
0166	Prev. med. off. (occup.)	0	1
0169	Prev. med. off. (pub. hlth.)	2	1
0214	General surgeon	3	13
0224	Neurosurgeon	0	2
0229	Obstetrician-GYN	4	14
0234	Ophthalmologist	1	3
0244	Orthopedic surgeon	2	12
0249	Otolaryngologist	0	4
0264	Thoracic and cardiovascular surgeon	0	0
0269	Urologist	0	3
	Totals	61	234
	Nurses	88	203
	Corpsmen	584	1,518

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[1] Not included in this report are medical billets assigned to the Fleet Marine Force (Pacific), Fleet Marine Force (Atlantic), ships and squadrons, Atlantic Fleet staff, Atlantic Headquarters Command Staff, and medical treatment facilities at Guantanamo Bay, Cuba; Roosevelt Roads, Puerto Rico; and Adak, Alaska. Naval Forces Southern Command and CONUS requirements are not included. Requirements for casualty receiving and treatment ships (LHA, LPH, LHD) are included.

AIR FORCE ANSWER. FY 86 Air Force Authorized Staffing Levels:

	Pacific Command	European Command
Physicians:		
General Practice	14	14
Family Physician	29	53
Aerospace Medicine	41	68
Pediatrician	17	29
Internist	13	19
Surgeon	10	16
Urologist	2	4
Ophthalmologist	1	4
Otorhinolaryngologist	3	7
Orthopedic Surgeon	3	11
OB/Gyn	8	17
Pathologist	3	7
Physicians:		
Radiologist	4	10
Dermatologist	2	5
Anesthesiologist	2	6
Neurologist	1	4
Psychiatrist	4	14
Allergist	1	2
Total	158	290

	Pacific Command	European Command
Nurses	231	436
Total Medical Enlisted	1,544	3,277

Question. Please provide the Committee with the wartime mobilization requirement for both the European and Pacific Command again broken down by physician specialty and nursing and corpsmen requirements.

Army Answer. The following represents the wartime mobilization requirements for both the European and Pacific Command, broken down by physician specialty and nursing and corpsmen requirements.

REQUIRED—WARTIME

Mos.	Description	Europe	Pacific
	Physicians:		
60A	Operational medicine	329	43
60C	Prev. Med. Off	103	10
60D	Occupational medicine	1	
60E	Gen. Med. Off	947	40
60G	Gastroenterologist	32	
60H	Cardiologist	32	
60J	Obstetrician/Gyn	97	1
60K	Urologist	54	1
60L	Dermatologist	32	1
60N	Anesthesiologist	197	3
60S	Ophthalmologist	56	1
60T	Otorhinorlaryngologist	55	1
60V	Neurologist	32	
60W	Psychiatrist	133	4
61F	Internist	546	12
61H	Family physician	20	
61J	General surgeon	901	27
61K	Thoracic surgeon	89	2
61L	Plastic surgery	4	
61M	Orthopedic surgeon	335	7
61N	Flight surgeon	74	13
61S	Radiologist	141	2
61U	Pathologist	44	
61Z	Neurosurgeon	61	1
62A	Emergency medicine	413	6
	Total physicians	4,728	175
	Nurses	9,733	93
	Enlisted	61,424	1,642

Navy Answer. The following represents the fiscal year 1991 wartime mobilization requirements for Navy.

NOBC	Description	Europe [1]	Pacific [1]
	Physicians:		
2XXX	Non specific designator hlth care management	6	12
9421	Commanding officer	14	17
9436	XO shore activity	1	0
0002	Staff medical officer	2	9
0004	Dir. of Clinical Med/SVC	0	2

NOBC	Description	Europe[1]	Pacific[1]
0008	Reg. hlth care coord	0	1
0016	Chief of Clinical Service	7	12
0020	Chief of Service	6	18
0030	Medical research off	4	3
0045	Flight surgeon	13	12
0048	Hd. medical dept	0	2
0051	Emerg. med. specialist	18	10
0070	Primary care med. off	397	380
0090	Undersea medicine	0	4
0101	Internist	89	90
0105	Pediatrician	2	18
0108	Family practitioner	99	129
0111	Dermatologist	32	31
0115	Psychiatrist	40	35
0118	Anesthesiologist	110	125
0121	Neurologist	11	13
0131	Radiologist (diagnostic)	51	51
0150	Pathologist (anatomical)	4	2
0154	Pathologist (anat. and clin.)	25	29
0160	Preventive med. off	6	1
0163	Prev. med. off. (Aerospace)	2	1
0166	Prev. med. off. (Occup.)	1	2
0169	Prev. med. off. (Pub. hlth.)	2	1
0214	General surgeon	158	158
0224	Neurosurgeon	32	32
0229	Obstetrician—GYN	28	29
0234	Ophthalmologist	29	25
0244	Orthopedic surgeon	107	100
0249	Otolaryngologist	30	37
0254	Plastic surgeon	3	1
0264	Thoracic and cardiovascular surgeon	17	13
0269	Urologist	25	25
	Totals	1,371	1,430
	Nurses	2,857	2,737
	Corpsmen	10,129	9,622

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[1] Not included in this report are wartime medical requirements for the Fleet Marine Force (Pacific), Fleet Marine Force (Atlantic), ships and squadrons, Atlantic Fleet staff, Atlantic Headquarters Command staff, Fleet Hospital #7, and medical treatment facilities at Guantanamo Bay, Cuba; Roosevelt Roads, Puerto Rico; and Adak, Alaska. Naval Forces Southern Command and CONUS requirements are not included. Requirements for casualty receiving treatment ships (LHA, LPH, LHD) are included.

AIR FORCE ANSWER. The wartime mobilization requirements for the FY 91 Program Objective Force are: ———.

REQUIREMENTS AND CAPABILITIES

QUESTION. DoD has still not defined "medical readiness". Medical commanders agree that equipment, staffing and supply are the major elements of readiness. However, there is no established framework to monitor these elements of medical readiness. Deficiencies in medical readiness are almost exclusively attributed to shortfalls in the number of available beds. DoD's answer to its wartime medical bed shortage is the acquisition of deployable medical systems referred to a DEPMED. The DEPMEDs were initially funded in fiscal year 1983 with the last buy scheduled in 1991. Approximately 58% of these deployable units have already been purchased.

Dr. Mayer, while you have been pushing for Congress to put more money into buying these deployable medical systems, we realize that we have no control over supplying the personnel for these units.

DEPMEDS STAFFING

What have the services done to increase the staffing to match the requirements of the additional DEPMEDs?

Army Answer. Within the current capability of the Army Medical Department (AMEDD) to equip its field hospital units, there exists sufficient health care assets in the aggregate to meet all our theater mobilization requirements. Generally we will be able to staff all our units as they become equipped with DEPMEDs with the exception of nurse anesthetists, practical nurses and respiratory specialists. However, it should be noted that when medical personnel resources are fully allocated to these units in the combat theater, medical support remaining in the Continental United States (CONUS) is severely limited because of resulting shortages in providers. Therefore, efforts to improve our personnel posture continue in order to ensure that personnel assets are available to meet all structured requirements. Actions initiated to improve our medical personnel status include the development of personnel enhancement programs designed to recruit and retain critical health care providers. A short description of each of these programs is as follows:

Reserve Component Medical Officer Programs

Individual Mobilization Augmentee (IMA) Participation Option: The Chief Army Reserve approved Pay Category B for a portion of the IMA program which will allow more flexibility of health providers in this reserve program.

Educational Stipend Programs: Legislation has been proposed to provide a monthly stipend for students training in those specialties critically short in reserve components units and the Individual Ready Reserve (IRR). Obligation varies with amount of stipend received.

Recruiting Force Improvements: An increase in Army National Guard (ANG) recruiting staff has been requested for FY 88 and will provide recruiting coverage for all states. An increase for the US Army Reserve (USAR) has been requested and will provide a dedicated medical recruiter force for the Individual Ready Reserve.

National Augmentation Detachment (NAD): NAD is a flexibile, administrative and training element for Medical Corps officers who are assigned to USAR medical units, but are unavailable to train with their unit on a regular basis. Fully credentialed physicians in shortage specialties designated by The Surgeon General will be eligible to participate. This will overcome geographical boundaries created when the population of physician specialists does not support the requirements of a local USAR unit.

Medical Detachments (MEDDETS) and Nurse Detachments (NURSEDETS): These are programs to provide flexible training opportunities for physicians and nurses at civilian medical schools, universities, and Army medical facilities. Future recruiting goals for this program will be targeted at the critically short physician and nurse specialties.

Scholarhip Program: This program will provide for training Army Nurses in accredited schools of anesthesia. Students will receive military pay while attending school.

Reserve Component Medical Enlisted Initiatives

$2000 enlistment bonuses for two critically short specialties. Practical Nurse and Respiratory Therapist Technician.

Selective reenlistment bonus for the majority of enlisted medical specialties in the Individual Ready Reserve (IRR).

Soldiers with outstanding federal student loans that were incurred prior to enlistment in the RC may be eligible for educational assistance in the form of loan payments.

Practical nurse training is being dramatically increased in FY87 under a contract with a civilian institution. Other enlisted courses such as respiratory therapy, medical noncommissioned officer, operating room specialist, and x-ray specialist are likewise under expansion.

Enhanced direct recruitment of needed enlisted specialists already trained in the civilian community is underway.

Requirements for the RC Army Civilian Acquired Skills Program (ACASP) have recently been revised to more closely parallel the training provided by the Army and to delete unrealistic experience requirements. These changes, coupled with an emphasis on the program by US Army Recruiting Command, should significantly increase the number of trained and experienced accessions in the reserve components.

Prior to separation, all active component soldiers are personally informed of the numerous opportunities for continued service in the elements of the RC.

These programs are at various stages of development and implementation. Some have been resourced and others are competing against other service programs. Undoubtedly not all will see final implementatoin because of resource competition.

Navy Answer. The Navy Medical Department has established the Medical Personnel Unit Augmentation System (MPUAS) as the major manpower system for manning deployable medical systems. Medical personnel at Naval medical treatment facilities (MTF's) in the Continental United States (CONUS) are assigned to an augmentation billet to support a wartime or crisis situation requirement. MPUAS may be initiated without the mobilization of reserve forces. Augmentation billets are established to support: Fleet Marine Force units; ships and squadrons, the hospital ships; MTF's outside CONUS; the Coast Guard, and the Rapidly Deployable Medical facility units. As other deployable medical systems reach their initial operating capability, manpower is programmed to support augmentation requirements.

There are shortfalls in some specialty areas to support wartime requirements, but the Navy has developed a substitution plan to help alleviate shortfalls in certain specialty categories such as substituting obstetricians/gynecologists for general surgeons. Specialists in training that have completed over 50% of their training may also be assigned to resolve shortfalls. The Navy allows graduates from the Health Professions Scholarship Program to defer initial active duty commitments to allow individuals to seek specialty training in the civilian sector. Once specialty trained, they are brought on active duty.

The Naval Reserve is an active partner in the total force manpower program for deployable medical systems and they have instituted incentives such as the Physicians in Medical Universities and Schools and Reserve Flexibility programs to aid in recruiting medical professionals. The Reserves have also established the Reserve Allied Medical Program to recruit health technicians into medical units in their designated specialty.

Navy's recruiting program has also been targeted at the critical specialties (i.e., aviation medicine, undersea medicine, general surgery, and neurosurgery).

AIR FORCE ANSWER. Since 1980 the Air Force Medical Service has increased its manpower by 6,000 active duty and 6,000 Air Reserve Forces (ARF) positions. Under the current five year Defense plan (FYDP) we will realize an additional 4,600 active duty and 3,200 ARF positions. This manpower has been gained in support of the medical readiness mission.

SUPPORT COMPONENTS OF MEDICAL READINESS ARE EMERGING AS LIMITING FACTORS

QUESTION. Congress was told in the early 1980s that there was no danger of buying more equipment than could be supported yet, the S&I staff says that the "break-even point" is close at hand.

Wouldn't the arrival of additional DEPMEDS units generate support problems, chief among them is the need for personnel, which could not be met by the Services?

AIR FORCE ANSWER. There are, of course, some challenges in matching up the improvements in medical material with improvements in medical personnel. The Department is working diligently to meet those challenges, and the lead time involved in procuring the DEPMEDS and bringing them on line will be used to execute the Department's plans for resolving wartime personnel shortfalls. Positive steps have been taken to enhance the adequacy of medical personnel resources to meet wartime requirements. The Department has taken action to standardize the way in which personnel requirements associated with workload for all types of hospitals, including the DEPMEDS, is determined. Best available estimates show that deployed force requirements can be met with physician, nurse and enlisted assets in the aggregate, with some shortfalls in certain physician, specialities, based on personnel assets projected to be available when the DEPMEDS are brought on line. The Services are currently refining the estimates of personnel requirements through standardized use of the medical planning module (MPM). The Services have also been directed to establish specialty-specific reserve components recruiting programs designed to reduce the shortfall in personnel required in the critical wartime skills by 20 percent each year, and to limit growth in active component physicians to the critical wartime specialties. This guidance is presently being translated by the Services into time—phased programs, which will be presented to the Department for review and oversight of the adequacy of revised personnel asset programs to meet the refined estimates of requirements.

EUROPEAN THEATER EVACUATION REQUIREMENTS

Question. Isn't it true that without sufficient resources to aeromedically evacuate combat casualties, more hospital beds are required? What is the Air Force's ability to meet the European theater evacuation requirements?

Air Force Answer. Your assessment of the relationship between bed requirements and aeromedical evacuation is correct. However, the converse is also true, as the number of beds available in the theater increases, the aeromedical evacuation requirement decreases.———.

Question. Is it true that the Military Airlift Command has been studying the evacuation of combat casualties since 1983 and that their study is still incomplete? Where is this study and do you have any perliminary results? General Chesney, we would like you to personally insure that a final copy is forwarded to this committee no later than August 30, 1986.

Air Force Answer. The final report has been drafted and is being reviewed at HQ MAC prior to submission to JCS in April 1986. Because this study was specifically directed by the JCS, it would appear more appropriate that they release the findings.

C-9A FLEET FOR USE IN EUROPE

Question. Is it true that the European Command officials want to increase their intra-theater airlift capabilities by earmarking the domestic C-9A fleet for use in Europe during wartime? Since the C-9A depends on tactical navigation aids and hard surface runways, neither of which may be available in a wartime scenario, why are the European command officials desiring to increase their use of the fleet?

Air Force Answer. ———.

[**Clerk's note.**—Classified question and answer removed.]

OTHER LIMITATIONS

Question. In many cases, adequate storage space for deployable medical systems in the theater near the point of anticipated usage has yet to be secured. One 500-bed hospital unit requires 32 C-141 aircraft to move it. To what extent will this be degraded by malpositioned DEPMED systems? If DEPMEDS are stored beyond the point of anticipated usage, what lift priority would they possess during a wartime setting? If DEPMEDS are stored in the United States, what lift priority would they possess during a wartime setting?

Army Answer. The hypothetical question is situation dependent. If DEPMEDS are stored beyond the point of anticipated usage or in the United States the theater commander would establish the lift priority. This priority will consider all of the necessary equipment, including medical, based on the strategy to prosecute the battle.

Navy Answer. The impact depends on conflict intensity and whether the units involved are to be employed in the combat or the communication zone. There is little or no impact anticipated for communication zone hospitals provided intra-theater air and ground transportation is available for casualty evacuation from the combat zone. In the combat zone, intense combat could overwhelm organic medical units and impede expeditious transfers to definitive care units within the combat zone. Accordingly, Combat Zone Fleet Hospital prepositioning must balance conflict dynamics, risks of forward placement and other regional contingency requirements. In other words, mal-placement is a relative term that will vary widely from one scenario to another. Inter-theater and intra-theater lift priorities will be reviewed and adjusted by theater commander in chiefs (CINCs) as necessary to deal with conflict dynamics. Each CINC has estimated different initial lift priorities, which range from as high as seven to as low as "on call" depending on scenario. However, it is important to assume that these initial priorities will not be subject to change upon or during plan execution.

AIR FORCE ANSWER. There are currently 10 deployable medical systems in Europe at the point of intended usage. Twenty-three more systems have been programmed. Aggressive efforts to obtain storage sites for them are now in progress with a number of friendly governments. If are stored beyond the point of anticipated usage, they will be of no value to the war effort because airlift will not be available to transport them to other chosen locations. In other words, DEPMEDs must be prepositioned in the right place before war starts.

HOST NATION SUPPORT

Question. Host nation support consists of commitments by a Host Nation to provide assistance to United States Forces. During the first ——— days of war, ——— will be available for United States casualties. The EUCOM surgeon, General Greendyke of the Air Force, has publicly stated that as a result of this commitment all United States casualties will be cared for during the first 30 days of conflict.

Doesn't the EUCOM surgeon's statement exaggerate EUCOM's medical readiness position?

Answer. General Greendyke's assertion regarding European Command medical readiness was overly optimistic.

[CLERK'S NOTE.—Classified questions and answers removed.]

DATED AND DETERIORATIVE ITEMS

QUESTION. Dated and Deteriorative (D&D) items are medical supply items with expiration dates. D&D items include intravenous fluids, pharmaceuticals and X-ray film. High procurement costs plus relative short shelf life preclude many from maintaining the JCS prescribed ——— wartime level of many of these items. A great deal of these are considered "the deferred procurement items" and it can take as many as two years for the drug industry to reach production capacity for such things as vaccine, antibiotics, morphine and atropine. With only low peacetime inventories and limited industrial research capabilities, obtaining these items rapidly to meet requirements of mobilization presents a serious problem.

What plans are in place to provide the wartime surge needs of the D&D and deferred procurement items not stocked during peacetime?

OSD ANSWER. The Air Force and the Navy are now acquiring the D&D items and stocking them with their deployable medical systems as they are fielded. The Army program being larger than the other two Services, is more complex. They have an initial complement of D&Ds stocked with their active units and as prepositioned materiel configured to unit sets (POMCUS). The Army is also working towards fulfilling their resupply requirements for D&Ds by obtaining ——— capability during the time period of ———. Finally, for all Services, prepositioning requirements may be eased by developments in the research area. Efforts are underway to develop capability to prepare fluids and to generate oxygen in the field. Having this capability will ease the prepositioning and resupply requirement for two items that are difficult to logistically support.

b. What is the military's estimate of the cost of maintaining these items in a current status at the required mobilization levels?

ARMY ANSWER. The Army's estimated cost to maintain a ——— level in D&D items is $158M. This projection is based on data in our War Reserve Automated Process. In addition to the PWRM level, an operational load (3–10 days of supply) of D&D items is required in our active component hospitals, prepositioned (e.g., POMCUS) hospitals and primary mobilization units. Estimated cost for this additional requirement is $117M. Once on-hand, this materiel must be replaced as the expiration dates are reached and can not be extended. Estimated cost for annual replacement of the PWRM is $68M per year and $47M for the operational load assets. Several courses of action are being reviewed in an effort to reduce potential economic loss associated with dated items.

NAVY ANSWER. The issue of replacement of dated and deteriorative (D&D) medical items has received high-level attention within the Navy and various efforts have been initiated to reduce this "cost of doing business".

Navy, along with the other Services and the Assistant Secretary of Defense for Health Affairs, is pursuing a number of programs to reduce the loss of shelf-life medical items, including:

a. Redefining procurement specifications to buy items with significantly longer shelf-life, where economically warranted, specifically for war reserve requirements.

b. Extending the shelf-life of on-hand items, with Food and Drug Administration approval, through sample lot testing either by Department of Defense (DOD) sponsored activities or by manufacturers testing of their products.

c. Increasing the number and quantity of standard shelf-life items being rotated through peacetime depot stocks.

d. Delaying delivery of shelf-life items until just prior to the initial operating capability (IOC) of fleet hospitals.

e. A Navy logistics research and development project to examine packaging, storage, and other potential technical improvements which could result in extending shelf-life.

Existing planning estimates for replacement of D&D items increase from approximately $.3 million in fiscal year 1988 to a stabilized level of approximately $17.0 million in fiscal year 1993 when 23 programmed fleet hospitals have attained IOC. Specific planning amounts, in fiscal year 1986 dollars, are as follows:

[In million of dollars]

	Fiscal year—					
	1988	1989	1990	1991	1992	1993
Hospital Ships	0.2	0.4	0.4	0.4	0.4	0.4
Fleet Hospitals	.08	2.9	6.4	9.3	12.4	16.6

We believe that the various DOD programs will significantly reduce actual losses of items, and result in improved readiness at less actual cost than displayed in the above planning estimates. These program efforts are currently being confirmed by a General Accounting Office review.

Air Force Answer. For the Air Force, dated and deteriorative (D&D) items are prepositioned at or near the place of intended use. Due to the early demand for these items, they could not be delivered in the time and quantities required to provide medical support to combat forces. During FY85 $3.0 million were required to replace D&D items. This figure is expected to grow to approximately $30.0 million in the mid 90's unless success is achieved in the several efforts that are underway to reduce these losses.

Question. What actions are being taken to lessen the cost of handling and stocking the D&D and deferred procurement items?

OSD Answer. The Services and the Defense Logistics Agency (DLA) have several initiatives on going to mitigate the losses associated with stockiang D&Ds. The first is an attempt to purchase items with longer shelf-lives than the currently required 36 months. A second program consists of expanding shelf-life through (1) testing inventories for potency and stability, and (2) manufacturers' testing of there products for possible extension of shelf-life on future deliveries. The final initiative involves increasing the base for rotation of D&Ds by (1) contracts with suppliers to maintain and rotate inventories and (2) increasing rotational capability within the DLA system.

AIR EVACUATION

Question. Under the JCS mandated minimally accepted ——— evacuation study, are there enough of each aircraft and flight and medical crews to handle anticipated casualties in a European theater war, a Pacific theater war or a global war?

Air Force Answer. Since 1983, the Military Airlift Command has been involved in a study to answer these questions. This study is not complete at this time. When the results of this study are available, answers to this question can be provided.

Question. The U.S. Air Force Military Airlift Command (MAC) is charged with the air evacuation responsibility utilizing the C-130 and the C-9A aircraft for tactical air evacuation and the C-141 aircraft for the strategic evacuation. If there is a shortage, identify whether it is in airframes, flight crews or medical crews. What evacuation policy could presently be supported with available resources in the European and Pacific theatres? What steps is the Air Force taking to close any shortfall? To what extent are the aircraft dedicated for medical and what other demands are placed on them for transport of war materiel?

Air Force Answer. ———.

Question. Specially equipped C-9A aircraft are used to aeromedically evacuate patients on a daily basis. Such aircraft are assigned to the European theatre but two (which were purchased with medical dollars) are being used in administrative support roles. Recent workload increases have strained capabilities of the three available C-9As. In the event of a terrorist attack, sufficient C-9A aircraft may not be accessible. At present, the less reliable, slower and less desirable (from a patient care standpoint) C-130 aircraft is the alert aircraft. The C-130, due to slowness, is unable to complete even scheduled missions in a normal crew day. Response time is two hours greater than with the C-9A, and flying and ground times are considerably longer.

a. In view of the terrorist threat and EUCOMS emphasis on readiness, why are the slower C-130s used as alert aircraft for air medical evacuation misisons?

b. What actions are planned to assure the C-9A aircraft will be available in the event of a terrorist attack or other mass casualty situations?

[Clerk's note.—The Department was unable to provide a response in time to be printed in this hearing volume.]

COMMAND AND CONTROL

Question. EUCOM's command and control structure and medical relating procedures are essentially those which were in place the day the Marine Corps barracks in Beirut was bombed. EUCOM's policy (in mass casualty situations) is to move casualties from a disaster site to military hospitals (preferably in West Germany) for treatment. Decisions regarding which hospitals would receive designated casualties, will be made by the senior medical officer at the disaster site, or the medical officer accompanying patients enroute during evacuation. This will be done in consultation with the EUCOM command surgeon or his representative and joint medical regulating office.

Not long ago, we read that the senior Army surgeon made a determination of where to evacuate the Beirut casualties, and was then overruled by the Air Force surgeon. The result was that the Marine Corps casualty spent more time in the air getting from the casualty site to a hospital. In view of these coordination and communication problems, which became apparent in the aftermath of the Beirut tragedy, shouldn't the responsibility for decision making be fixed with just one individual?

OSD Answer. Following the tragedy in Beirut, a directive was promulgated in the European Command which clearly establishes the responsibility for hospital designation with the Joint Medical Regulating Officer, a member of the command surgeon's staff. This directive is designated EUCOM Directive 67-5, Health Services Crisis Response, and is dated 5 April 1984.

Question. How will the current EUCOM policy prevent confusion concerning the selection of designation hospitals?

OSD ANSWER. The EUCOM Directive 67-5 establishes procedures to be followed in designating hospitals. The directive is clear and unambiguous.

QUESTION. What is EUCOM's policy concerning the use of civilian or Allied military hospitals near a disaster site as treatment centers?

OSD ANSWER. The first choice will always be care in U.S. hospitals. If the condition of the injured precludes movement to a U.S. facility and a suitable allied nation civilian or military hospital is available, then that hospital will be used.

QUESTION. Virtually every medical unit visited expressed concern because of the almost total reliance on commercial telephones. Field exercises demonstrate communication inadequacy and several high military commanders profess their reliance on forward area medical commanders to improvise because they are reasonably certain or operating in a communications vacuum during a war.

OSD ANSWER. The European Command has an ongoing effort to identify communications requirements for medical units in the European theater. Several strategies have been explored including a computer network of small, portable computers which transmit data over commercial telephone lines; a separate or shared radio network; use of the Worldwide Military Command and Control System (WMCCS) network; and commercial telephones (the European Telephone System (ETS)). The final answer has not been determined. Once a system is developed that will solve the medical communications problems, a model will be established which other unified commanders can emulate.

QUESTION. What is being done to provide adequate telephones and electronic message facilities for medical units?

OSD ANSWER. The Army is developing the Theater Army Medical Management Information System (TAMMIS) which can be employed by all services. This system has been tested and appears to have potential for solving many of the communications problems. It depends on small, portable computers for operation. In Europe, the European Telephone System (EST) will go far towards solving the telephone difficulties in that theater. Telephone communications have not been identified as a problem in other theaters.

QUESTION. Should all medical wartime communications be secure and if so, how much will this cost?

OSD ANSWER. Medical communications need not be secure outside the combat zone. Formatted data can be employed to render the information less obvious. Within the combat zone, tactical communications systems will be employed. These systems are, typically, very expensive. When the European medical communications study is completed, requirements for secure systems can be evaluated and costs developed.

STAFFING

QUESTION. DoD develped the medical planning module (MPM) because of different methodologies used in predicting wartime requirements. A common denominator, it was hoped, would provide precise and logical medical support requirements. These requirements became especially important when shortfalls and support capabilities are addressed through the programming and budgeting process. Although it is still being modified after 24 major enhancements since 1982, the Secretary of Defense directed the MPM use in preparing the 5 year defense plan.

Why doesn't the Assistant Secretary for Health Affairs resolve the Services' planning differences?

OSD ANSWER. The services have been directed to use the Medical Planning Module (MPM) for development of the program requirements. The enhanced MPM will resolve the major dissimilarities in service medical programming.

QUESTION. How accurate are the Services' wartime medical support requirements?

OSD ANSWER. The planning methodologies employed by the services and the MPM are based on experiential data and, as such, can never be perfect for all contingencies. Considering the natural differences in the services' missions, the state of the art in modeling, and our inability to predict the future, the services' medical support requirements are acceptably accurate.

QUESTION. Explain the process within the Department for insuring that the Services' capabilities are integrated to meet joint requirements.

OSD ANSWER. Service requirements are based on the time-phasing of their forces into combat, the intensity of combat, and the geographic region in which their forces are employed. Within those areas identified as combat zone, requirements are balanced between the expected flow of casualities into hospitals and the ability to move them out (evacuation), allowing time for stabilization so that the trauma of evacuation will be tolerable. Integration of facilities within the combat zone is not an objective. In the areas behind the combat zone, commonly referred to as the communications zone, each service has planned for its own needs. This assures that each service will provide its share of the requirements. The office that determines the facility to which the casualty will be evacuated, the Joint Medical Regulating Office, bases its decisions on availability of beds and operating rooms. Eleven different categories of beds are considered, for example, general surgery, burns, neuropsychiatric, and so forth. Parent service of the casualty is not a consideration. Because hospitals are located near areas of operation, it is likely that casualties will be moved to facilities of the parent service, but this is not essential. This is not a perfect system. Communications and the availability of evacuation means are the limiting factors. The system, however, is not static. Efforts towards perfecting the system countinue. The Office of the Assistant Secretary of Defense (Health Affairs), the OJCS, and the Unified Commanders are all working towards this end.

[CLERK'S NOTE.—End of questions submitted for the record.]

[The S&I report referred to on page 727 follows:]

NOT FOR RELEASE UNTIL AUTHORIZED BY THE COMMITTEE

A REPORT TO
THE COMMITTEE ON APPROPRIATIONS
U.S HOUSE OF REPRESENTATIVES

on

MEDICAL READINESS IN THE U.S. EUROPEAN AND PACIFIC COMMANDS

Surveys and Investigations Staff
February 1986

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NOT FOR RELEASE UNTIL AUTHORIZED BY THE COMMITTEE

February 3, 1986

MEMORANDUM FOR THE CHAIRMAN

RE: Medical Readiness in the
U.S. European and Pacific Commands

By directive dated June 7, 1985, the Committee requested an investigation of and report on medical readiness in the U.S. European and Pacific Commands. The investigation has been completed and the accompanying report is focused on the Department of Defense's medical support capabilities during wartime and its ability to respond to contingency situations.

Respectfully submitted,

R. W. Vandergrift, Jr.
Acting Chief of the Surveys
and Investigations Staff
House Committee on Appropriations

Joseph D. Powell

Joseph D. Powell, Director
Surveys and Investigations Staff
House Committee on Appropriations

SUMMARY

The terrorist bombing of the Beirut Marine Barracks in 1983 directed worldwide attention to the ability of our armed forces to respond to a wartime medical contingency. By all accounts, the medical care provided as a result of that terrorist act was described as heroic. Yet, overall medical support planning in the European theater of operations was declared deficient by the subsequent Long Commission review. Criticisms of the U.S. European Command's medical readiness can be traced to the component services long standing practice of caring for its own casualties. Problems seem to multiply when the medical resources of component services are called upon for joint operations within a theater.

Wartime Medical Support Structure

The services' current medical force structures do not provide sufficient personnel authorizations and units to supply an adequate level of medical support either overseas or in the United States in the event of war. The Assistant Secretary (Health Affairs) told the Investigative Staff that four out of ten casualties in Europe can adequately be cared for with current resources, but he said Korean theater medical support was much worse.

The services have designed medical support systems to meet the requirements of their respective wartime missions. In general, each system involves increasing levels of care (called echelons of care) as a casualty is evacuated from the combat area. The most seriously injured are ultimately returned to hospitals in the United States. Transition to wartime is accomplished by expanding peacetime medical facilities and activating contingency hospital assemblages which are maintained in storage. Contingency hospitals are available in a myraid of configurations ranging from mobile Army surgical hospitals to 1000 bed general hospitals, all designed to support the basic echelons of care concept.

In the early 1980's, Department of Defense (DOD) studies reported that the military medical support structure had deteriorated to a level that could provide care for only approximately 30 percent of the casualties anticipated in a conventional war. Many problems associated with medical readiness were noted, including a serious shortage of contingency hospital assemblages. DOD began to equate medical readiness with wartime hospital bed availability. The Congress was told that more hospital beds would mean more capability. According to DOD officials, there was little danger of buying more hospital beds than the services could support, i.e. staff, supply, and transport.

Medical Requirements and Capabilities

DOD has not defined medical readiness nor have its individual elements been earmarked to allow their oversight. Medical commanders agree that equipment, staffing, and supply are the major elements of readiness, but there is no established framework to monitor changes in these elements. Deficiencies in medical readiness are almost exclusively attributed to shortfalls in the number of available hospital beds.

War plans are the basis upon which medical support requirements are determined. Addenda to these plans identify the medical resources needed to support wartime missions. Representatives from the Office of the Joint Chiefs of Staff (J-4) refused access to war plans covering the European and Pacific theaters citing Memorandum of Policy restrictions. This prevented an assessment of wartime medical support requirement computations as well as the extent of coordination and teamwork between the services in fulfilling these support requirements.

Since the 1970's, the individual services have used different methodologies to predict their wartime medical support requirements. For example, the Navy's predicted need for physicians in Europe was greater than the Army's, but their force at risk was smaller. Because of these dissimilar planning procedures, DOD developed the Medical Planning Module--one of seven major subsystems of the Joint Operations Planning System. It was believed that such a common denominator would provide more precise and logical medical support requirements. One DOD study described problems resulting from attempts to rectify the services different methods of predicting wartime requirements--particularly the need for physicians--as "intractable." This study stated that the Medical Planning Module clearly embodies the correct logic for predicting the full range of wartime medical requirements in a combat theater and, after some data base improvements, would be capable of making these predictions. Although it is still being modified after 24 major enhancements since 1982, the Secretary of Defense directed the Medical Planning Module's use in preparing the FY 1988-92 Program Objective Memoranda (POM).

DOD's answer to its wartime hospital bed shortage is the acquisition of deployable medical systems referred to as DEPMED's. Designed to be standardized among all of the services, the DEPMED's units were initially funded in FY 1983 with the last buy scheduled for FY 1991. Due to problems in the development of the Medical Planning Module, 70 percent of this equipment will already have been purchased before the support requirements have been determined. About 58 percent of these deployable units have already been purchased. A profile of the DEPMED's requirements shows the following:

DEPLOYABLE MEDICAL SYSTEMS

	Predicted Requirements			Percent of Requirements On Hand And In Procurement		
	Units	Beds	Operating Rooms	Units	Beds	Operating Rooms
Army	[					]
Navy	[					]
Air Force	[					]
Totals	[					]

NOTES: Deviations in requirements percentages, numbers of beds, and operating rooms are caused by different size/configurations of DEPMED's and by mission/logistical differences among the services. Figures are based on DOD working papers.

The last DEPMED's units are scheduled for procurement in FY 1991. Funds in out-year DOD budgets to fulfill their predicted requirements for these units are below.

FUNDS PROGRAMMED FOR FUTURE BUYS OF DEPLOYABLE MEDICAL SYSTEMS

SERVICE	FUNDS (millions)
Army	$1,034.70
Navy	278.40
Air Force	363.42
Total	$1,676.52

Support Components of Medical Readiness are Emerging as Limiting Factors

With over 50 percent of the DEPMED's units funded and on order, chronic needs for readiness/sustainability components have yet to be accurately identified and fulfilled. Congress was told in the early 1980's that there was no danger of buying more equipment than could be supported. Yet, one high ranking DOD official stated that the "break-even point" is close at hand. It appears that further buys of contingency hospital beds no longer equate to improved medical readiness. The arrival of additional DEPMED's units will generate support problems, chief of which is the need for medical personnel. Current personnel shortages center around physicians, nurses, and enlisted medical corpsmen.

Plans for wartime theater medical assets consider the number of hospital beds available, the evacuation policy, and available aircraft. Without sufficient resources to aeromedically evacuate combat casualties, more hospital beds are required. DOD officials in Europe as well as at the Office of the Joint Chiefs of Staff were able to provide little in the way of details concerning the Air Force's ability to meet the European theater evacuation requirements. The Military Airlift Command has been studying this issue since 1983 and their study is still incomplete. U.S. European Command officials want to increase their intra-theater airlift capabilities by earmarking the domestic C-9A fleet for use in Europe during wartime. Critics of this approach pointed out that the C-9A depends on tactical navigation aids and hard surface runways, neither of which may be available in a wartime scenario.

Host nation support during wartime has been relied upon in the past for such things as transportation, warehousing, and medical care. The one major existing agreement to care for U.S. European Command casualties was finalized with the United Kingdom in August 1985. [ ] Although the U.S. European Command Surgeon publicly stated that this specific agreement would allow for all predicted casualties to be cared for, i.e., "ten out of ten for 30 days," Pentagon officials are less optimistic. Concerns included (1) uncertainties associated with medical capabilities beyond U.S. control, (2) insufficient airlift resources, and (3) difficulties involved in managing upwards of [ ] casualties at numerous locations throughout the United Kingdom.

U.S. European Command representatives are also in the process of seeking the assistance of European allies to provide sites for prepositioning DEPMED's units. Firm agreements have yet to be established, except for the United Kingdom and there only about [ ] of the European Command's prepositioning requirements have been met. Some hospital assemblages are already malpositioned and further malpositioning will occur as the DEPMED's units are received into inventory. Pentagon officials believe that prepositioned equipment is a key element in their efforts to improve medical readiness.

Current medical supply levels in the European and Pacific theaters will also limit wartime capabilities. [ ]

Competition for communications resources increases greatly during a crisis situation such as a terrorist attack and during wartime. Communications were described as either "horrible" or "nonexistent" in the medical facilities visited and, if radios were available, frequency differences sometimes prevented their effective use.

Response to Terrorist Attacks

Although the European Command component services have improved their medical response capabilities, the theater's command and control structure remains essentially unchanged since it was criticized after the attack on the Marine barracks in Beirut. The European Command's plan for responding to such incidents lacks specific instructions that would ensure speedy evacuation and direction of any victims to the appropriate medical treatment facility.

Five C-9A Nightingale aircraft are assigned to the European theater for aeromedical evacuation duties. The European Command has diverted two of these C-9A's to administrative flights.

I. INTRODUCTION

A. Directive

The Committee's directive of June 7, 1985, requested an investigation of medical readiness in the U.S. European and Pacific Commands.

B. Scope of Inquiry

The issues addressed in this inquiry included the extent of command and control exercised by the European and Pacific Command Surgeons over their component commands' medical assets; adequacy of medical readiness planning and reporting; condition and location of deployable medical systems; availability of lift resources to move these systems as well as casualties; and the services' efforts to fund shortfalls in their wartime medical support requirements. Activities visited included:

-- Assistant Secretary of Defense for Health Affairs;
-- U. S. Army, Navy, Air Force, and Marine Corps Headquarters and;
-- U. S. European and Pacific Commands.

Interviews were conducted with officials from the unified commands and their component services as well as with numerous subordinate medical support and storage units.

War plans are the basis upon which medical support requirements are determined. Addenda to these plans identify the medical resources needed to support wartime missions. Representatives from the Office of the Joint Chiefs of Staff (J-4) refused access to war plans covering the European and Pacific theaters. This prevented an assessment of wartime medical support requirement computations as well as the extent of coordination and teamwork between the services in fulfilling these support requirements.

C. Discrepancies in Medical Readiness Identified in DOD Reports

The Long Commission review of the October 1983 bombing of United States Marine Headquarters in Beirut found that the on-scene medical care was heroic and that none of the wounded died or received improper care as a result of evacuation or casualty distribution procedures. However, the Commission concluded that overall medical support planning in the European theater was deficient.

In January 1984, Secretary Weinberger directed the Assistant Secretary of Defense for Health Affairs (ASD(HA) to begin an extensive field review of medical readiness capabilities within the United States European Command (EUCOM). A similar follow-on review in the United States Pacific Command (PACOM) was approved by the Secretary in March 1984. Special DOD review groups investigated medical evacuation, command and control, communication, and planning in each Command. Separate reports were issued in April (EUCOM) and June (PACOM) 1984. The EUCOM report detailed serious discrepancies in medical readiness and quoting from its summary finding, "Today, the United States European Command has neither adequate medical resources nor effective joint plans for the use of the resources it has." This report was initially closely held within DOD and, in fact, it was only shared on a carefully restricted basis per the instructions of the Secretary of Defense. Conclusions contained in the later PACOM report were even more sobering, i.e., medical readiness problems identified were not new and had been previously referred to as "war stoppers" and "war losers."

In June 1984, a draft memorandum circulated by the Assistant Secretary of Defense (Health Affairs) directed actions to eliminate the deficiencies identified in the EUCOM report. The draft memo intended for Secretary Weinberger's signature eventually "died in process" because of JCS and Service Department opposition to what was viewed as a power play by ASD (HA). Among the issues addressed were actions to:

-- increase medical readiness resources,
-- improve wartime medical logistics support,
-- identify aeromedical evacuation requirements and to increase evacuation capabilities,
-- improve medical readiness planning, and
-- improve capabilities to care for the casualties of chemical or biological warfare.

When asked if there was any opposition to these proposed actions at an April 1985 hearing held by the Subcommittee on Defense, the Assistant Secretary replied "not opposition exactly." Yet, an analysis of the JCS and services' reactions to the draft action memo revealed substantial opposition. The JCS bluntly nonconcurred, while an Acting Assistant Secretary of the Air Force stated that the proposed memo: 1) selectively ignored the Planning, Programming, and Budgeting process, 2) diminished authority over management of medical resources, 3) eliminated operational planning prerogatives of the Unified Commanders, 4) usurped JCS authority and responsibility for review and approval of operational plans, and 5) assigned ASD (HA) broad directional authority which may be incompatible with the service secretaries' responsibilities.

The investigation also determined that the timeframes specified in the June 1984 draft implementing memo for correcting EUCOM medical readiness deficiencies were unrealistic. The proposed solutions would have involved "turf battles" that would make agreement on the suggested remedies difficult if not impossible. No one within DOD was formally responsible for overseeing the services' responses relative to either the proposed actions in the June 1984 memo or the EUCOM report recommendations. ASD (HA) is ultimately responsible for solutions to the problems outlined in the EUCOM report, but JCS is addressing many of the recommendations as they were directed at Unified Commands.

In March 1985, the Deputy Commander in Chief, EUCOM, convened a medical planning conference attended by representatives from ASD (HA), JCS, Service Departments, EUCOM, and the component commands in Europe. Resulting from the conference was the development of six major objectives to improve medical readiness in Europe and milestones for their completion. They were:

1. Eliminate potentials for duplication of sites for hospital and evacuation units among services and thus facilitate joint utilization. The final product was due August 1, 1985.

2. Determine the requirements for a dedicated medical communication capability for wartime. The final product was due September 1, 1985.

3. Determine an optimum mix of United States and host nation support for wartime operations in Europe. The final product was due November 1, 1985.

4. Examine casualty evacuation concepts in theater and develop alternate means of transporting patients. The final product was due November 15, 1985.

5. Evaluate and improve current casualty projection methodology through a common set of combat attrition factors. The final product was due on December 1, 1985.

6. Evaluate the concept and determine the feasibility of a regional medical logistics support system for wartime in Europe. The final product was due December 1, 1985.

High ranking officials acknowledged that deadlines for completion of these six objectives were overly optimistic and, as a result, none of the six are nearing completion except a regional medical logistics support system.

The Chairman of the Subcommittee on Defense questioned the Assistant Secretary (Health Affairs) at the April 1985 hearing regarding DOD's progress toward correcting the medical readiness deficiencies identified in both commands. The Assistant Secretary replied that these analyses had helped focus attention on the need to increase cross-service medical planning and readiness resources. One result was a decision to increase the commitment of resources to procure deployable medical systems over the next five years beginning with about $500 million in the FY 1986 budget request. Optimal medical readiness, according to the Assistant Secretary, was so far away there was little danger of over procuring or over preparing this year or next in response to any individual service's needs. In addition, it was mentioned that sufficiency in DOD medical readiness would be "approached" over the next four to five years.

II. MEDICAL SUPPORT STRUCTURE

A. Wartime Medical Support

[ ] According to the JCS Military Posture Statement for FY 1986, if United States forces were simultaneously engaged in several regions, i.e., Western Europe and Northeast Asia (NEA), the services could provide 21 percent of the hospital beds that would be required during the first 60 to 90 days of combat.

A JCS medical steering committee report indicates that the services will meet the Defense Guidance objective [ ] Current capability includes organic medical supplies and equipment on hand to meet medical units' wartime mission (this equates to about [ ] while funded/programmed capability [ ] respectively) includes supplies and equipment in the FY 1986 budget request and programmed through FY 1991.

According to ASD (HA) prepared documents, the services' current medical force structures do not provide sufficient personnel authorizations and units to supply an adequate wartime level of medical support either overseas or in the United States. The Assistant Secretary (Health Affairs) advised that four out of ten casualties in Europe can adequately be cared for with current resources, but he said Korean theater medical support was much worse.

Because of these perceived shortcomings in its medical capabilities, DOD plans to spend over $3 billion to procure deployable medical systems [ ] operating rooms) and two hospital ships (1,000 beds and 12 operating rooms each). Procurement began in 1983 and will be completed during the next five years. To staff this expanded military health care structure, approximately 45,000 additional health care personnel will need to be recruited, trained, and retained. ASD (HA) officials believe that the currently programmed manpower and material will allow medical resources to match their projected requirements in the early 1990's. Each of the services' Surgeons General have stated in testimony before the House Appropriations Committee's Subcommittee on Defense that wartime medical readiness is their first priority.

B. Medical Care Concept and Capabilities

DOD splits its wartime theater of operations into two zones, i.e., the forward combat zone covering the land, sea, and airspace needed to conduct combat operations and the communications zone comprised of the area required to support the forward zone. Medical support in a theater is structured in a building block fashion starting with basic first aid and becoming progressively more sophisticated. There are four defined echelons of medical support within the theater of operations. These are:

-- In the first echelon, the medical mission is simply to provide essential emergency care and to prepare the casualty for evacuation to the rear. This care may include the beginning of intravenous fluid administration, the control of hemorrhage, and the establishment of an airway.

-- In the second echelon, care is rendered at an assembly point. Here the casualty is examined, wounds and general status are evaluated to determine priority, as a single casualty among other casualties, for continued evacuation to the rear. Emergency care, including beginning resuscitation is continued and if necessary additional emergency measures are instituted.

-- In the third echelon, the casualty is treated in a medical installation staffed and equipped to provide resuscitation, initial wound surgery, and post-operative treatment. Casualties whose wounds make them nontransportable receive surgical care in a hospital close to the second echelon. Those whose injuries permit transportation without detriment, receive surgical care in a hospital farther to the rear.

-- In the fourth echelon, the casualty is treated in a hospital staffed and equipped for definitive care. These hospitals are located in the communications zone. Their mission is to provide definitive rehabilitative care to return casualties to duty status. If rehabilitation cannot be accomplished within the permitted holding period (evacuation policy), casualties are evacuated to the continental United States for reconstructive surgery, extensive rehabilitation or other treatment.

Each of the services builds its system of medical support in accordance with these basic concepts. In general, the services plan to expand their peacetime fixed facility medical support system by activating contingency hospital equipment and reserve staffing. The configuration of medical equipment and manner in which reserves will be used varies among the services due to differing missions. The planning of each of the services as well as their overseas hospital bed capability is discussed below.

1. Army Mission and Readiness

The Army is planning for a variety of wartime situations. Forward deployed forces, such as those in Europe or Korea, may have to fight with little notice while others may have days or weeks to prepare. The Army expects to be committed in two environments--a sophisticated battlefield with the necessary infrastructure and an unsophisticated battlefield without any support. As a result, the Army must prepare its medical force to support long vulnerable lines of communication and combat units in multiple environments. A mobile medical force is needed to shift support with the combat troops. Wartime Army hospital bed capabilities are below.

Army Wartime Hospital Bed Capabilities

	Current/Funded	Programmed	Total
NATO	[		]
NEA	[		]
SWA	[		]
OCONUS	[		]
	[		]

NOTE: Includes forward, pre-positioned, active, and reserve units necessary to support a [ ] day evacuation policy. Current/funded beds represent supplies and equipment on hand and in the FY 1986 budget request; programmed beds represent capability in the out-year budgets.

2. Navy Mission and Readiness

The Navy's mission requires that its medical force support Fleet as well as Marine operations. Fixed, presited medical facilities are needed to support the Fleet while more flexible and mobile medical forces are required to support the Fleet Marine Force. Amphibious operations rely on medical capabilities that are organic to Fleet elements. Organic medical units provide emergency and resuscitative treatment to enable casualties to be moved rearward for more definitive care. Definitive medical care would be available on hospital ships, when assigned to the Fleet, and at shore-based fleet hospitals. Wartime Navy hospital bed capabilities are below.

Navy Wartime Hospital Bed Capabilities

	Current/Funded	Programmed	Totals
NATO	[		]
NEA	[		]
Fleet Hospital Program	[		]
Hospital Ships	[		]
	[		]

NOTE: Navy capabilities reflected above do not include over 12,000 beds in fixed facilities. Also see note below Army wartime capabilities.

3. Air Force Mission and Readiness

Air Force casualty rate projections are 19 times pre-1976 rates. An Air Force study in 1976 of its future conduct of war highlighted several significant facts. The most important was the assumed enemies' increased offensive capabilities matched against the Air Force's capability to defend its bases. [

] As a result, more Air Force casualties are expected than previously projected.

According to the Air Force, its wartime medical support planning is based on determinations that:

-- It will experience a large number of casualties,
-- Casualties will peak early in a conflict,
-- Pre-positioning of war readiness medical material assets must be accomplished prior to the outbreak of hostilities,
-- Comprehensive medical care must be available as close to the battlefield as possible,
-- Provisions must be made for the survivability of medical personnel and resources, and
-- Provisions for rapid patient evacuation are essential.

Wartime Air Force hospital bed capabilities are shown below.

Air Force Wartime Hospital Bed Capabilities

	Current/Funded	Programmed	Total
NATO	[		]
NEA	[		]
SWA	[		]
OCONUS	[		]
	[		]

NOTE: See note below Army wartime capabilities.

III. MEDICAL REQUIREMENTS VS. CAPABILITIES

Medical commanders generally agree that medical equipment, staffing, and supply have to be considered major elements of medical readiness. Medical support capability results when these elements are brought together in proportion to one another. In recent years DOD has attributed deficiencies in medical readiness almost exclusively to shortfalls in medical equipment. The term "hospital beds" evolved as the yardstick for measuring the shortfall. The services have only about 30 percent of the estimated hospital beds required during wartime. Because of this shortage, DOD officials have informed the Congress that only approximately 30 percent of wartime casualties could be treated. There was little danger of buying more hospital bed capability than could be supported, according to DOD officials. More hospital beds would equate to more capability.

The Congress responded to DOD's need for medical equipment in the early 1980's. The procurement of thousands of hospital bed assemblages began. To avoid buying dissimilar equipment, DOD required the services to buy only standardized equipment. Minor variations were allowed to accomodate mission specific requirements. This standardized equipment is generally referred to as Deployable Medical Systems (DEPMED's). By the end of FY 1985, Congress had funded 58 percent of the DOD wide requirement for hospital beds at a cost of nearly $1.3 billion dollars. This equipment is now being assembled and will be delivered to the services during the next few years. By the end of FY 1991 the DOD wide requirement for hospital beds will be fully funded if in place programs continue.

As equipment comes into the inventory, shortfalls in the other areas of medical readiness begin to emerge as limiting factors. A review of support requirements later in this report shows that it is no longer safe to assume that more hospital beds equate to more capability. A high ranking DOD official agreed that the program is very near what he called "the break even point." Combined with DOD's problem of determining medical support requirements, the wisdom of fully funding this program comes into question.

A. Requirements

Problems arising from the services' differing methods of predicting wartime medical support requirements have been known since the mid-1970's. It was evident that the services were determining their requirements using different information. For example, in 1978 the Navy's predicted wartime requirement for physicians in the European theater was greater than the Army's, yet the Navy's force at risk was much smaller.

In an attempt to provide medical planners with a workload based, automated system, for generating Operational Plan (OPLAN) medical requirements, using standard methodology, DOD developed the Medical Planning Module (MPM). This module is one of seven major subsystems of the Joint Operations Planning System and therefore, available worldwide to medical planners. Based on war plan information already in this system, the MPM predicts medical support requirements. Output from the MPM consists of hard copy reports in the form of tabs to the medical services' OPLAN appendix; e.g., hospital beds, physicians, operating rooms, medical supply required to support the OPLAN. Shortfalls between requirements and capabilities are addressed through the programming and budgeting process of each of the services.

The problems engendered by the services' methods of predicting wartime requirements--particularly medical manpower requirements--have proven "intractable" according to one DOD report. This report also stated that the MPM clearly embodies the correct logic for predicting the full range of wartime medical requirements in a combat theater and, after some data base improvements, would be capable of making these predictions.

The investigation determined that since 1982 more than 24 major enhancements and modifications have been made to the MPM module and, as late as October 1985, a number of features were being added to facilitate its use in preparing Program Objective Memoranda (POM) submissions. The Secretary of Defense has directed that, beginning with FY 1988-92 POM, the MPM will be used to predict all work related wartime medical requirements. Accordingly, the requirements necessary to support DEPMED's equipment will first be determined in FY 1988; by that time 70 percent of the equipment will already have been purchased.

The predicted requirement for hospital beds identified by the MPM, or any other method, must be considered in its context of the dynamic environment in which it is made. Changes in theater evacuation policy and war plans can dramatically alter requirements. The current evacuation policy dictates that if a casualty cannot be returned to active duty within a specified period of time, he is evacuated to the continential United States or at least out of the theater. The shorter this policy, the less medical capability is required in theater, but greater airlift resources will be needed and fewer experienced soliders will be returned to duty. The impact of a change in this policy on theater bed requirements can be dramatic. Whenever there is a change in war plans due to a different threat analysis, an addition or deletion in force structure, or a change in political alliance, the requirement for equipment, supplies and personnel for medical readiness is affected. Thus, any statement of need for these items is, at best, a carefully calculated estimate to "hit" a constantly moving target.

B. Shortfall in Hospital Beds Reduced

The military calculates hospital bed requirements using a minimum [ ] day evacuation policy and a conventional large scale global war scenario. "There are currently no services in any theater that have enough medical resources to meet even the [ ] day evacuation policy," according to one military medical commander. This fact was supported by every command contacted. The joint service medical planners in the Pacific theater calculate [ ] hospital beds will be needed at wartime, only [ ] can presently be counted. In Europe, [ ] hospital beds will be required, yet at present, only [ ] beds can be counted. PACOM requirements are determined using the minimum [ ] day evacuation policy while EUCOM uses a graduated evacuation policy which peaks at [ ] days. This, in part, accounts for EUCOM's higher hospital bed requirements.

DOD has accelerated the procurement of DEPMED's to meet projected theater requirements and looks to them and to two 1,000 bed hospital ships under construction for the Navy to eliminate this bed shortfall. Through 1991, DOD plans to spend over $3 billion to procure these DEPMED's and two hospital ships for the Navy. 58 percent of these units have been purchased to date and are in the delivery pipeline. 70 percent are scheduled to be on hand or in procurement by FY 1988. Out-year budget programs contain approximately $1.7 billion to complete the projected DEPMED's requirement of [ ] beds. At the conclusion of the buy, predicted service-wide wartime hospital bed requirements will be met. A profile, by service, of current and funded capability follows:

DEPLOYABLE MEDICAL SYSTEMS

	Predicted Requirements			Percent of Requirements On Hand And In Procurement		
	Units	Beds	Operating Rooms	Units	Beds	Operating Rooms
Army	[					]
Navy	[					]
Air Force	[					]
Totals	[					]

NOTE: Deviations in requirements percentages, numbers of beds, and operating rooms are caused by different size/configurations of DEPMED's and by mission/logistical differences among the services. Figures are based on DOD working papers.

DEPMED's are composed of a variety of hospitals which are not operated in peacetime. Components are standardized to the maximum extent possible. Deviations are based only on the distinct missions or logistical and support restrictions of the services.

In general, DEPMED's employ hard wall containerized transportable shelters housing hospital core facilities such as operating rooms, central material supply units, pharmacies, laboratories and X-ray facilities. The remainder is housed in tents.

The services are procuring DEPMED's configured to support their respective missions. Gross hospital bed requirements are broken down into types of hospitals required. While the medical equipment in these sets will be, for the most part, interchangable among the services, the way it is stored and configured will differ.

1. The Army Plan

The Army has calculated a requirement for and is purchasing approximately [ ] DEPMED's. (Due to constantly changing war threats and force structures, this number fluctuates slightly from one projection to another.) Besides the number of beds, Army hospitals differ in the types of care they can provide, their degree of mobility and their location in relation to the battlefield.

The Army is buying the following numbers of DEPMED's in the listed configurations:

[ ]
[ ]
[ ]
[ ]
[ ]
[ ]
[ ]
[ ]

A little over [ ] of the Army's DEPMED's are to be prepositioned in storage, primarily in Europe. Only 34 are presently slated to go to active duty components with the remainder going to Army Reserve or National Guard units. The Army plans to establish DEPMED's training modules with which CONUS and Reserve/National Guard units can exercise.

2. The Navy/Marine Plan

The Navy has extensive detailed prepositioning plans both afloat and ashore for the transportable self-contained DEPMED's. The units possess requisite mobility to support the Marine Corps. There are two primary configurations of Navy combat zone fleet hospitals: 250 and 500 beds. These hospitals will be deployed in a secure zone of the combat area of the theater of operation. The remainder will be located in the secure rear areas, the Communications Zone (COMMZ).

The Navy's prepositioning plans also call for overseas storage of 1,000 bed COMMZ hospitals in somewhat of a turn-key mode, at the point of intended use. The hospitals will be warehoused at host nation sites (see discussion of Host Nation Support in the next chapter). The "core" areas (operating rooms, laboratories, X-ray, etc.) will be packed in hard wall shelters which can be rapidly set up. The remainder of the hospital, when activated, will be set up in buildings vacated by the host nation.

The Navy's hospital ship program will provide floating medical capability within five days of activation with a total of 2,000 beds and 24 operating rooms. The first ship, USNS Mercy, is scheduled for an October 1986 delivery to the Navy; the second, the USNS Comfort, is scheduled for delivery in July 1987. A Rapidly Deployable Medical Facility (RDMF) is aboard the chartered vessel Letitia Lykes, currently stationed at Diego Garcia in the Indian Ocean. It offers a 1000 bed combat zone hospital capability (four USMC hospital companies with 250 beds each). The current RDMF is scheduled to be replaced by fleet hospital numbers one, two and four aboard wartime prepositioned ships.

The Navy has programmed deployable system purchases in the following configurations:

[ ]
[ ]
[ ]
[ ]
[ ]
[ ]
[ ]

3. The Air Force Plan

The Air Force anticipates receiving its peak numbers of casualties within the first few days of a war. In anticipation of this, Air Force medical planners are prepositioning their DEPMED's assemblages in a "purpose built" or modified existing facility away from main operating bases and other high priority targets. The Air Staff has directed that these hospitals will be set up and functional, including staff augmentation, within ten days of activation. Thus, the Air Force sets up these hospitals ready for turn-key operation. The hospitals can be totally operational within 48 hours.

Most of the Air Force medical care locations have been provided through host nation support agreements. The Air Force is buying the following numbers of DEPMED's units (less the tents if other suitable shelter has been secured).

[ ]
[ ]
[ ]
[ ]

4. Funding

As a part of the FY 1986 budget request justification ASD (HA) officials identified funds amounting to about $500 million which could be directly linked to efforts to improve medical readiness. An analysis of these funds shows that they included supplies, equipment, and other costs associated with the planned procurement of deployable hospitals. The funds identified were dispersed among as many as five different appropriations. Even though the Surgeons General testified that medical readiness was their first priority, only about $500 million out of $9.6 billion requested for medical activities in FY 1986 can be positively identified with medical readiness due to budgeting practices.

The services' budget structures differ markedly which makes it virtually impossible to compare their expenditures for these deployable hospitals. For example, ambulances, showers, laundry, and food service are needed for support. These items are budgeted and funded separately by the Army and the Air Force and their costs are not included in budget exhibits for the deployable systems. The Navy, however, established a project office to purchase these deployable hospitals. As a result, their budget exhibits reflect a more realistic total cost. This has caused some criticism of the Navy for purchasing "gold plated" equipment, but its price per hospital unit reflects total equipment and support costs. Bearing this point in mind, following are FY 1984, 1985 and 1986 DEPMED's budget requests for these deployable systems. The FY 1986 request included 24 Army, one Navy and four Air Force deployable medical systems.

MEDICAL READINESS
BUDGET REQUESTS
($ Millions)

	FY '84	FY '85	FY '86
Navy			
Operations & Maintenance	-	-	-
Other Procurement	58.2	69.2	27.7
Stock Fund	-	5.0	3.0
MILCON	-	-	17.1
	58.2	74.2	47.8
Air Force			
Operations & Maintenance	7.2	6.0	15.2
Other Procurement	17.4	18.0	81.1
Stock Fund	73.3	27.1	36.9
MILCON	6.6	2.8	15.9
	104.5	53.9	149.1
Army			
Operations & Maintenance	69.1	126.0	81.7
Other Procurement	56.7	85.3	161.9
Stock Fund	-	7.0	63.2
MILCON	-	-	-
	125.8	218.3	306.8
TOTALS	$288.5	$346.4	$503.7

In the same vein, the Secretary of Defense noted in September 1985 that a Defense Health Agency had been proposed as a solution to problems in duplication of effort, quality of care, and parochialism that have occured in the current medical care system. However, he stated that this plan had been set aside in favor of centralizing policy and budgeting authority in ASD (HA). There is little current evidence to indicate any movement on these two issues even though the Committee's report accompanying the FY 1986 DOD Appropriation Bill estimated that possibly as much as $2 billion is expended for DOD medical activities but cannot be identified in current DOD budget exhibits.

DOD anticipates procuring the last deployable system in FY 1991. Funds estimated to complete the medical systems purchases are shown below:

Army	$1,034.70 million
Navy	278.40 million
Air Force	363.42 million
	$1,676.52 million

C. Condition of Existing Medical Equipment

Air Force officials in Korea stated that the hospital equipment currently on hand "while not the most modern, is essential, functional and maintainable." This is an accurate summation of overall observations during this study. Medical equipment throughout the services is in very short supply based on the military's computed needs. On hand equipment appears to be well maintained whether actively used or stored against a wartime contingency.

Many of the military's permanent overseas hospital facilities, while primarily functioning to furnish peacetime medical care, also provide medical capability in most wartime scenarios and are critically important in terrorist, natural disaster, and limited local war planning. Facilities such as the Army's 121st Evacuation Hospital in Seoul, South Korea, the Navy's hospital in Naples, Italy and the Air Force's hospital in Osan, South Korea, are outdated and overcrowded and are being replaced. All but two Army medical/dental fixed facilities in Korea are being renovated. Ten Air Force dispensaries in Korea are being upgraded and expanded.

In Europe, the Army's two General hospitals, the 97th in Frankfurt and the 2nd in Landstuhl, are being renovated, upgraded and modernized. The Air Force pointed out that the 609th Contingency Hospital, Zweibrucken, West Germany, the 66th Contingency Hospital at Little Rissington, United Kingdom and the 310th Contingency Hospital in Nocton Hall, United Kingdom, all need communications, laundry facilities, messing, utilities and maintenance equipment before they can be activated.

Of the four air ambulance companies in the Army, the two that are overseas are in the process of being equipped with the modern Blackhawk helicopters (the 377th in Korea has Blackhawks, the 421st in West Germany is expected to be equipped by March 1986); the two United States based units are to be so equipped in FY 1987/88. The Blackhawks are 50 percent faster, have deicing capability, can carry six litter patients versus four for the older UH-1B Hueys and have improved servicability and maneuverability. However, Blackhawks already being used for aeromedical evacuation will be the last to receive equipment improvements, according to Army officials.

The process of preparing "medical material" for long term storage was observed at the U.S. Army Medical Material Center, Europe (USAMMCE). Equipment is inventoried, packaged, placed in a metal container, sealed with an aluminum type material afterwhich all of the air is removed. Two wires are inserted to provide for a humidity check of the equipment while in storage. The equipment is then sealed in a wooden crate. The Medical Unit Self Transportable (MUST) tents, although a part of the hospital, are not "vacuum packed" like the other equipment, but simply folded and put into wooden crates.

One high ranking officer at USAMMCE demonstrated that all medical hardware, canvas and equipment in storage is inspected every five years on a spot check basis. "There is no medical equipment that has been sitting around 20 years untouched. We are past that now," according to Army officials. Spot checks conducted during this investigation generally supported this statement.

Combat Equipment Group Europe (CEGE) sites are responsible for the storage of Prepositioned Material Configured in Unit Sets (POMCUS) equipment. Equipment is stored inside humidity controlled warehouses or outside. Indoor equipment undergoes a four year maintenance cycle; outdoors, it is every two years.

Medical equipment stored at CEGE sites falls into three basic categories: (1) ambulances stored indoors, (2) battalion aid stations and clearing company medical facilities stored indoors, and (3) combat support/evacuation hospitals (from USAMMCE long term storage) stored outside. Rather than regular POMCUS maintenance cycles, these hospitals are inspected during the regular USAMMCE five year reconstitution program.

At one CEGE site visited it was observed that the ambulances to support one evacuation and two combat support hospitals were stored in good order inside of one large warehouse. The hospital units themselves, however, were stored unprotected outdoors. The storage boxes were stacked in random fashion, two deep with several of the bottom boxes suffering damage from the weight of the top boxes. At least one box was broken with the aluminum sealant perforated. Tent equipment was visible through other damaged crates. The MUST tent boxes had last been inspected in 1979. The required humidity checks on stored hospital equipment had not been conducted in years.

Due to the sensitivity of medical equipment and the complexity of long term storage procedures, USAMMCE does not want CEGE personnel to open storage boxes. If boxes are damaged, it is incumbent on the CEGE site to call USAMMCE. If no call is made, the five year reconstitution cycle is the next check of packaging security. With no responsibility for the boxes, interest in and inspection of them by CEGE personnel is lax.

Two additional CEGE sites were visited. The hospital assemblages were stored outdoors at each of these sites. However, no damage was observed to any of the boxes. In one instance, all of the boxes were stored one deep and in the other, only the smaller boxes had been placed on the top row. During a "wrap up" briefing with the 7th Medical Command, officers conceded that the Investigative Staff had found a "glitch" in their storage system and it would be corrected.

The Navy currently has no hospital ships available and relies heavily on the Rapidly Deployable Medical Facility (RDMF). The RDMF is aboard the Letitia Lykes currently stationed in the Indian Ocean. It consists of a 1000 bed combat zone hospital (configured as four 250 bed units). During the summer of 1985, a fire apparently caused by overheated oxygen bottles damaged the RDMF as well as Letitia Lykes. Navy officials in Hawaii stated that around $2.4 million was spent to repair the RDMF which was taken to Guam, completely dismantled, refurbished and repacked.

IV. SHORTFALL IN OTHER COMPONENTS OF READINESS EMERGE AS LIMITING FACTORS

When the services began buying DEPMED's in the early 1980's, DOD told the Congress that there was no danger of buying more equipment than could be supported. As previously stated, increases in contingency hospital beds were automatically equated to improved medical readiness. Now that over 50 percent of the required hospital beds have been funded, shortfalls in staffing and supply requirements are beginning to emerge as limiting factors. DOD has not calculated a "break even point" for the program; therefore, the exact point at which more hospital beds will no longer mean more capability is not known. One knowledgeable DOD official believed that the program is already near that point.

A. Staffing

DOD is experiencing problems in both determining and filling wartime staffing requirements for the medical support system it is building. Under most wartime scenarios, staffing requirements far exceed the numbers and types of personnel that will be available to fill them. Estimates vary, but all show significant shortfalls. A representative estimate, made in the "Fiscal Year 1983 Readiness Assessment of the Reserve Components", placed DOD wide shortages at 4,100-6,400 physicians/surgeons; shortages of nurses and medical corpsmen are estimated at 19,000 and 39,000 respectively.

Complicating the issue is the fact that, while each service uses essentially the same methodology to arrive at casualty estimates, they use different methods for determining the manpower required to treat them. For example, the Army requires 68 physicians for 1,000 hospital beds in the combat theater; the Air Force, 112, and the Navy, 135. This results in a different size and composition of staffs required for the same type of medical facility. A summary of the FY 1986-90 Program Objective Memorandum (POM) physician-to-bed ratios further illustrates this issue.

FY 1986-90 POM
PHYSICIAN-TO-BED RATIOS

SERVICE	THEATER PHYSICIANS/BEDS	CONUS/OTHER PHYSICIANS/BEDS	TOTAL PHYSICIANS/BEDS
ARMY	1/13.1	1/9.9	1/11.4
NAVY	1/5.6	1/2.3	1/3.4
AIR FORCE	1/4.7	1/20.1	1/9.3

The services state their wartime staffing requirements without regard for specialty mix. Combat health care requires a mixture of physicians heavily weighted in casualty specialties such as orthopedic surgery. These skills are required in sufficient numbers to mandate specifically stated requirements if proper medical care is to be provided. An imbalance in speciality mix currently exists. According to a recent report issued by the House Armed Services Committee, the Army has only 41 percent of its wartime requirement for orthopedic surgeons, but 5,409 percent of the pediatricians required for war.

DOD has recognized these problems for some time. As early as August 1978, and again in July 1982, the ASD (HA) requested the services to eliminate disparities in manpower program requirements. Failure to do so, it was felt, could undermine the credibility of manpower requests. Although each of the services agreed, their POM's illustrate that a uniform method of determining requirements is not in use.

DOD plans to eliminate the surgical specialty and overall physician shortage through increased reserve recruitment. [

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But the services would have to almost double their present recruitment rate for surgical specialities just to meet current requirements.

A requirement for more experienced medical planners is also evident in the Pacific and European commands. For example, the Navy does not have a medical planner in Korea to coordinate its requirements with the other services. The U.S. Forces, Japan medical planner is on loan from a component service due to personnel shortages. The Investigative Staff also found that the wartime medical support plans of one Army major command have been under revision for months, bogged down due to a shortage of medical planners. The need for more medical planners was echoed across service lines in PACOM and EUCOM as well as throughout prior medical readiness reports. Medical commanders believe that planners are essential if components of medical support are to be effectively merged into a wartime capability, but no evidence of serious effort at higher command levels to address these shortages was found during this investigation.

B. Aeromedical Evacuation Plans

Planning for theater medical assets essentially involves three factors:(1) the number of hospital beds available; (2) the policy for evacuating casualties; and (3) the airlift available to support the evacuation policy. Without sufficient evacuation capability, casualties must remain in theater thereby occupying a greater number of beds. The provision of aircraft and accompanying medical evacuation crews is therefore critical to planning theater medical support.

When the question of capability to support EUCOM requirements was posed to JCS and EUCOM, officials at both commands responded by saying only that the Military Airlift Command (MAC) was addressing this issue. A study to determine MAC's ability to meet EUCOM evacuation requirements was initiated in February 1983 and is still incomplete. Partial results of the study indicate a shortage of aircraft as well as aeromedical evacuation crews. The shortage of airframes has been highlighted in numerous other studies including the EUCOM readiness report, an Industrial College of the Armed Forces/National Defense University report on mobilizing the Nation's medical resources and, most recently, a readiness study issued by the House Armed Services Committee staff. [

] Theater officers who have exercised war plans in Europe cite a scarcity of C-130s to fly medical evacuation missions. Alternate means of tactical evacuation are being explored by EUCOM including ambulance ferries, hospital trains, and civilian aircraft.

One EUCOM initiative for increasing their aeromedical evacuation capability is a proposal to transfer the Air Force's C-9A domestic fleet to Europe during wartime. These aircraft would augment those already in the theater. Critics of this proposal charge that the C-9A is not a tactical asset. USAFE officials pointed out that the C-9A is dependent on navigational aids which may not be operating during wartime--either turned off to prevent use of them as missile targets or bombed as first strike targets. This inability to navigate could be overcome with the installation of inertial navigation systems, funding for which is projected [ ] Regardless, the C-9A would still require a hard surface runway in excellent condition. According to MAC officials, the quick repair system for runways would probably not provide a sufficiently smooth surface to prevent damage to the C-9A landing gear.

C. Host Nation Support

DOD has historically sought Host Nation Support (HNS) to improve its wartime capabilities especially in areas such as transportation, material handling, security, construction, maintenance, and medical care. Currently, the vast majority of HNS medical support is concentrated in Europe [

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Medical support is considered a national responsibility in the NATO arena. There is an agreement among the allies to furnish each other with the greatest possible aid when requested. The EUCOM component services have requested that NATO allies provide sites for prepositioning of deployable medical systems as well as direct medical care (inpatient hospital care) during the initial days of wartime. Agreements on prepositioning sites have proven to be slow in coming and commitments for direct medical care have emerged as a controversial issue within DOD.

1. Direct Medical Care

The only major commitment to provide EUCOM with direct medical care was made by the United Kingdom (UK) in August 1985. [

] Once the wounded have been transported to airheads in the UK, all further support (e.g., ground transportation) will also be provided by UK resources. [

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] Based on this comparison, the EUCOM Surgeon has publicly stated that the medical care for all United States casualties would be available, i.e., 10 out of 10 for 30 days. This assertion, however, has been attacked by DOD officials because it appears to exaggerate EUCOM's medical readiness posture. Specific concerns voiced include:

- The inherent uncertainty associated with assets beyond United States control precludes claiming those beds as actual capability.
- EUCOM has evaluated only one of the UK hospitals designated to support United States casualties to determine adequacy; protocol procedures are being established to evaluate the remainder.
- Current airlift resources are insufficient to meet anticipated requirements to move casualties to the UK; initiatives are underway to address EUCOM shortfalls.
- The committed UK hospital beds seem to be dissimilar to stated service requirements; i.e., military hospital beds are assembled in a variety of configurations (MASH units, EVAC hospitals, etc.) and designed to support the four echelon concept of medical care.

-- Patient management problems would be very difficult and ASD (HA) officials believe this would hamper efforts to maintain a [ ] day evacuation policy and would result in fewer returns to duty.

DOD officials currently maintain that EUCOM could provide medical care to approximately four out of ten wounded based on current capabilities. [ ] The UK agreement is only an "interim fix" and even when implemented "will not be a substitute" for theater bed requirements, according to JCS reports. These comments are consistent with opinions expressed by numerous military commanders. The services have not altered plans to procure or position medical equipment in Europe as a result of the UK agreement.

2. Prepositioning Site Agreements

In order to expand their medical support capabilities more rapidly, EUCOM's component commands would like to preposition medical equipment at locations throughout Europe. HNS agreements are being pursued for land and buildings to be used as prepositioning sites. The services have stated their requirements in terms of hospital beds as shown below.

EUCOM MEDICAL EQUIPMENT PREPOSITIONING REQUIREMENTS

Nation	Requirement (hospital beds)
United Kingdom	[ ]
Norway	[ ]
Denmark	[ ]
Belgium	[ ]
The Netherlands	[ ]
Luxembourg	[ ]
Italy	[ ]
Turkey	[ ]
Spain	[ ]
Total	[ ]

Although EUCOM officials are negotiating with all countries in which requirements have been identified, firm siting agreements have yet to be obtained from any of them except the UK and there, [ ] Accordingly, some hospital assemblages are already malpositioned relative to intended usage. If agreements are not reached before previously funded medical equipment is delivered, further malpositioning will occur. This equipment will have to be stored in CONUS or Germany and then be transported to wherever it is needed.

The Assistant Secretary (Health Affairs) considers HNS agreements that allow medical equipment to be prepositioned an important element in the overall program to improve medical readiness in EUCOM. Other DOD officials believe that these agreements will be forthcoming now that the United States has committed itself to the procurement of medical equipment scheduled for movement to Europe.

D. Medical Supply Shortages

According to PACOM officials, medical supplies on hand could sustain expanded operations at Army facilities [ ]

Shortages in medical wartime supply will be addressed, in part, through the procurement of DEPMED's which will be stocked with [ ] days worth of medical supplies, except for Dated and Deteriorative (D&D) items. Supplies such as X-ray film, pharmaceuticals, laboratory reagents, intravenous fluids, and certain bandages are examples of D&D items. They have an expiration date after which they must be discarded. If enough D&D items are procured to supply the DEPMED's requirements, expiring items will result in an annual cost of approximately $66 million. Ways to economically manage this expense are being explored, but DOD has not given these efforts a high priority.

Studies indicate that low industrial inventories and limited surge capabilities will result in a problem in producing required D&D items in the event of war. DOD is looking at ways to solve these problems, but there was no evidence that a solution is imminent. Plans are not in place to assure that D&D requirements will be met.

In PACOM, shortfalls in medical supplies are also aggravated by the separate supply systems being operated by the services. The inefficiencies attendant to these circumstances became apparent in Japan. Medical equipment, which is in storage at Sagami Depot under the command of the U.S. Army, Japan, is routinely tested and reconditioned in accordance with Army regulations. Technicians responsible for this function advised that required spare parts must be ordered from CONUS. As a result, equipment can be inoperable as long as 18 months before spare parts arrive in Japan. The Eighth U.S. Army operates a medical supply optical and maintenance unit in Korea which is capable of reconditioning medical equipment. Since a different Army command is involved they were not aware of Sagami's needs.

A test to determine if the Army's Medical Material Center, Europe (USAMMCE) can serve as a theater wide medical supply manager was scheduled to begin in January 1986. USAMMCE appears to be a very well managed organization. Army commanders believe that, regardless of Air Force resistance to the test, USAMMCE will meet theater-wide interservice requirements with a minimum of problems. If the test is successful, USAMMCE will operate a single medical supply system for the European theater.

E. Communications

Medical communication requirements increase substantially during crisis situations as well as wartime. During a crisis or emergency recall, hospital to hospital and hospital to disaster site communication links pose the greatest test. During wartime, requirements greatly increase as does competition for available communication resources. Additional ambulance and supply requests as well as patient and blood regulating will tax the communication network.

Today, medical units place almost total reliance on the telephone for peacetime, crisis, and wartime communications. Telephone communications alone seem insufficient even for peacetime. Medical facilities in both PACOM and EUCOM have problems during staff recall exercises because available housing sometimes lacks telephones or the reliability of existing telephones is less than adequate. A mixed communications package consisting of radios and telephones appears to be necessary. In virtually every medical unit visited, communications were described as "horrible," "non-existent" or "a war stopper." Where radios were available, frequency differences sometimes prevented communications between nearby hospitals.

V. MEDICAL RESPONSE TO TERRORIST ATTACKS

Emergency medical support should provide rapid on-scene medical care and evacuation of casualties to the most capable medical facilities. To be effective, this continuum of care must be coordinated in accordance with a flexible, pre-arranged plan of action. The Long Commission and subsequent EUCOM Medical Readiness Report concluded that theater-wide medical support planning in Europe was seriously deficient. Significant progress has been made, particularly in the capabilities of the EUCOM component commands to provide disaster site medical care to casualties resulting from acts of terrorism. Yet, the ability of EUCOM to effectively coordinate the evacuation of casualties from a disaster site and direct them to the appropriate military medical treatment facilities remains questionable. The EUCOM Surgeon is still a part time position with inadequate staff; EUCOM's emergency medical regulating procedures are ambiguous; and aeromedical evacuation aircraft are in short supply.

In the Pacific, theater medical commanders perceive the threat of terrorism to be significantly less than in Europe. That assumption notwithstanding, medical support in the event of a terrorist attack was pronounced, "the most well planned segment of medical preparedness in the Pacific" by the PACOM Medical Readiness Report. In general, progress has been made to correct the few deficiencies identified in that report. The major recommendation of the report, using a rapid deployment force as a template for planning in PACOM, has not materialized.

A. EUCOM Crisis Response Management

Policies, procedures, and responsibilities for EUCOM's theater-wide medical response plan are contained in a EUCOM directive titled, "Health Services Crisis Response" (hereinafter called the Plan). The Plan is activated by "command authorities" when joint support is required by a real or potential mass casuality situation. Upon activation, the EUCOM Crisis Action Team (CAT) assumes directive authority over the component commands. The team is composed of representatives from various directorates within EUCOM, including the command surgeon. The Plan states that the components will provide EUCOM with specified medical resources on an as required basis. These resources are intended to enable the CAT to augment on-scene medical care and evacuate casualties to hospitals as circumstances dictate.

EUCOM's policy is to move casualties to military medical treatment facilities within its area of responsibility. A key player in this process is the Joint Medical Regulating Office (JMRO) which, on a day to day basis, determines destination hospitals for patients being relocated in the theater. According to the

Plan, "Decisions regarding designation of destination casualty receiving hospitals will be made by the senior medical officer at the disaster site, or accompanying the patients en route during evacuation, in consultation with the USEUCOM Command Surgeon or his representative on the HQ USEUCOM Crisis Action Team and the USEUCOM JMRO. Although the decision maker may vary depending upon the circumstances of a particular crisis situation, the guidance * * * will be closely followed. Once patient destination decisions are made the regulation of the patients will be effected by the USEUCOM JMRO." This decision making process appears to be flawed for two reasons as follows:

-- The responsibility for decision making is not fixed. The decision on where to take casualties can be made by the senior medical officer at the disaster site or the senior medical officer accompanying patients during the evacuation. Failure to fix responsibility can only lead to confusion as evidenced by the circumstances surrounding the 1983 bombing of the Marine Corps barracks in Beirut. The Long Commission traveled to six countries and conducted 125 interviews before concluding, "At some point, however, a decision was made to transport many of the seriously wounded to Germany. The Commission has not been able to determine who made this decision." The Commission recommended that the Secretary of Defense direct an investigation into "decisions made regarding the destination of aeromedical evacuation aircraft." EUCOM's present decision making process is as ambiguous as the one in place the day of the bombing.

-- The designation "Senior Medical Officer at the Disaster Site" could be meaningless. In the event casualties from more than one service are involved in a disaster, senior medical officers from each service would likely be at the disaster site. In these circumstances the potential for confusion may be great as evidenced by the written comments of the USAFE Command Surgeon days after the Beirut bombing. "If we had been inundated with casualties of all three services so that different priorities had to be set by each of the three senior medical officers, I'm sure there would have been a dogfight. We can't let that happen."

EUCOM's command and control structure and medical regulating procedures are essentially those which were in place the day the Marine Corps barracks in Beirut was bombed. Emergency mass casualty regulating under these conditions has not been tested since that time. The provisions of the Plan which provide for the deployment of medical units to a disaster site have been successfully tested under real world crisis situations. Acts of terrorism such as the hijackings of the Achille Lauro and TWA Flight #847 as well as several bombings have caused EUCOM component medical units to either deploy or prepare to deploy on eight separate occasions in the past 15 months.

Military hospitals lie at the opposite end of the continuum of care from the disaster site. EUCOM's Plan states that disaster victims will normally be regulated to hospitals at Frankfurt (U.S. Army 97th General Hospital), Landstuhl (U.S. Army 2nd General Hospital) and Wiesbaden (U.S. Air Force Regional Medical Center). Each of these facilities has a well defined, routinely exercised and comprehensive plan to prepare staff for incoming casualties. If EUCOM can get victims to any of these facilities there is little doubt that the hospitals will be ready.

B. EUCOM Components' Response Capabilities

The plan requires EUCOM's component services to provide the CAT with specific medical assets (i.e., triage teams, medical equipment, and aircraft) in the event of a terrorist attack. The services have improved their response capabilities since the EUCOM report was written. They can provide the CAT with a wide range of resources in an emergency.

The Air Force component (USAFE) activated its first Flying Ambulance Surgical Team (FAST) in October 1984 at Wiesbaden. Other operational FASTs are located at Lakenheath, Torrejon, and Incirlik. The teams are composed of 20 medical personnel ranging from surgeons to technicians. Each is capable of providing trauma surgery and stabilization for 50 casualties up to a maximum of 48 hours. FAST personnel and equipment can be loaded in a C-130 aircraft in two hours. If support requirements exceed the 48 hour capability of the FAST, four Air Transportable Hospitals (ATH) are available which can provide additional medical support. ATH's have one operating table and 24 beds capable of providing limited care and stablization. These units are in the process of being upgraded to two operating tables and 50 beds. "Our operational contingency hospitals, the most viable component of our system, were developed from virtually no capability only four years ago," according to USAFE officials.

USAFE is also responsible for providing airlift resources to evacuate casualties. This function is performed by the 2nd Aeromedical Evacuation Squadron (AES) at Rhein Main Air Base, Germany. Specially equipped C-9A aircraft are used to evacuate patients on a daily basis. Five such aircraft are assigned to the European theater, but two are being used in administrative support roles. Recent workload increases have strained the capabilities of the available C-9A's. In the event of casualties resulting from a terrorist attack, C-9A aircraft may not be accessible. The 2nd AES would like to have an established agreement to assure availability of at least one of the C-9A's presently being used for administrative support. According to a 2nd AES briefing,

> "C-9A, tail number 10882, was bought and paid for with medical dollars and yet is not available to the 2nd AES unless not tasked by the USAFE/DO. Rather, the less reliable, slower, and less desirable, (from patient care standpoints,) C-130 aircraft is the alert bird. The C-130 due to slowness, is unable to complete any of our scheduled missions in a normal crew day. In addition, response time is two hours greater than with the C-9A, and flying and ground times are considerably longer. Given the high terrorist threat in Europe and the Middle East a C-9A alert capability is essential. Recommend a change to the MAC/USAFE agreement to require the use of C-9A 10882 when no other C-9A asset is available."

The Army component (USAREUR) has created medical force packages to support rapidly deployable medical teams. Personnel are alerted through established recall procedures and can be at an airfield, with equipment, and ready for departure on three hours notice. Included in this capability are surgical, triage, stabilization, and disaster site survey teams. USAREUR can also activate six Blackhawk air ambulance helicopters within the same time frame. USAREUR conducts monthly alerts to exercise units and assure that response times can be met. In addition to these capabilities, USAREUR has created the EUCOM Contingency Support Hospital or "EUCH" as it is unofficially called by members of the 7th Medical Command. EUCH has a 100 bed capability which can provide a full range of medical support, including surgery and intensive care. The hospital can be ready for deployment on 24 hours notice and was successfully deployed to support Army airborne troops in a recent exercise. Although the hospital provides EUCOM with a significant medical capability, it requires approximately 15 C-141 sorties or 24 C-130 sorties for transport.

The Navy has developed Mobile Medical Augmentation Readiness Teams (MMART) to provide medical support to the Fleet and operational units. MMART's are under control of the Naval Medical Command in Washington, D.C. These units could be used in disaster situations, but due to the nature of naval deployment, they may also be delayed in responding to a disaster occuring ashore. Therefore, EUCOM's plan does not require the Navy to have these units available in a crisis. To augment EUCOM's capability and insure a rapid response, the Navy's European Regional Medical Command has established crisis reaction teams. These teams can provide medical and surgical treatment as well as casualty holding and transfer capabilities. They are composed of elements from shore based units.

C. PACOM Crisis Response Planning and Capabilities

The Pacific theater encompasses approximately one half of the earth's surface. The great distances between its many island nations preclude a centralized planning approach. PACOM has divided the theater into five regions, each having a tri-service regional committee. The committees have integrated the medical plans of each region into a joint regional disaster response plan. In general, the plans provide for teams to respond to a disaster site, stabilize casualties and return them to a region's hospital. All joint regional disaster plans have been exercised, according to the PACOM Surgeon's office.

Service cooperation is necessitated by the PACOM theater geography. Medical commanders feel that they must share resources because timely augmentation from outside their region is doubtful. In fact, plans do not exist for augmentation of one region by another in the event of a peacetime mass casualty situation. Aeromedical evacuation in PACOM is performed by three C-9A aircraft assigned to the 9th AES at Clark Air Force Base. These aircraft routinely operate at less than a full patient load. In the event that a region required rapid aeromedical evacuation, the 9th AES has on call the "Rapid Egress Air Evacuation Team."

The PACOM Medical Readiness Report recommended that the regions improve their disaster site response capability by adopting a concept under development at Clark Air Force Base in the Philippines. The concept is very similar to USAFE's FAST capability, but is still not operational anywhere in PACOM.

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